

**Management Audit of
Santa Clara Valley Health and Hospital System
Administration and Support Services**

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the
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April 6, 2011

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April 6, 2011

Supervisor Ken Yeager, Chair
Supervisor Dave Cortese, Member
Board of Supervisors Finance and Government Operations Committee
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Dear Supervisors Yeager and Cortese:

Pursuant to the direction of the Board of Supervisors, we have completed a management audit of Santa Clara Valley Health and Hospital System (SCVHHS) Administration and Support Services, which are spread across 64 of approximately 300 cost centers in the Santa Clara Valley Medical Center (SCVMC) Enterprise Fund budget. This audit was conducted under the authority of the Board of Supervisors power of inquiry, as provided in Article III, Section 302 (c) of the County Charter. The audit was performed in accordance with government auditing standards of the United States Government Accountability Office.

Although this audit was not selected through the Board of Supervisors' Management Audit Program risk assessment analysis, which identifies and prioritizes areas of County government for future audit, it was recommended by the Finance and Government Operations Committee and approved by the Board of Supervisors. The FY 2010-11 Recommended Budget of the SCVHHS Administration and Support Services included in the scope of the audit amounts to approximately \$173.2 million and includes 962.9 authorized positions.

The audit commenced on July 22, 2010, a draft report was issued on December 23, 2010, and an exit conference was conducted on March 3, 2011. This audit report includes 11 sections pertaining to the purchase of outside medical services by SCVMC; hospital charges and reimbursements; purchase, use and charging for medical supplies; oversight and management of information technology; internal control over hospital assets; budget development, management and policies and procedures; SCVHHS financial staffing; SCVHHS inter-departmental charges for central administrative services; and use of cell phones. During the audit, more than 50 staff were interviewed and financial, budget and operating records from many of the organizational cost

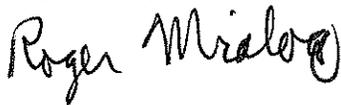
Supervisor Ken Yeager
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centers were sampled and analyzed. In addition, a survey of other California county hospitals was conducted to obtain comparable information on specific areas of SCVHHS operations and to identify and compare policies and procedures utilized by these other jurisdictions.

Based on the audit procedures, surveys and other audit techniques described above, a total of 56 recommendations were developed. The implementation of these recommendations would enhance Finance Division staffing, result in improved financial management, improve staff and resource utilization, enhance management information and budgeting, reduce costs and increase revenues. We estimate that the full implementation of these recommendations would reduce expenditures by approximately \$14,110,200 annually. SCVHHS would achieve additional cost savings and several million dollars of increased revenues annually once charges are set to fully recover costs, supplies are properly charged, and outside medical services are better coordinated with internal clinic capacities. The audit also recommends one-time costs of approximately \$906,400 to improve the efficiency and management of supply consumption and charge capture, and to identify discrepancies between prices on supply invoices and contracts. A brief synopsis of the audit and its key findings follows, and the written responses from the Santa Clara Valley Health and Hospital System, Controller-Treasurer Department and County Executive begin on page 277.

We would like to thank the Deputy County Executive/SCVHHS Acting Director, the Chief Financial Officer, the Chief Medical Officer and the many administrative and operational staff throughout the organization for their cooperation and assistance with the performance of this audit.

Respectfully Submitted,



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MANAGEMENT AUDIT OF SANTA CLARA VALLEY HEALTH AND HOSPITAL SYSTEM (SCVHHS) ADMINISTRATION AND SUPPORT SERVICES

AUDIT SYNOPSIS

This management audit examined the operations, management practices and finances of various SCVHHS Administration and Support Services, including 64 of approximately 300 cost centers in the Santa Clara Valley Medical Center (SCVMC) Enterprise Fund. The audit report contains 11 major findings and 56 recommendations that if implemented, would enhance Finance Division staffing, result in improved financial management and reduce expenditures by about \$14.1 million annually. SCVHHS would achieve additional cost savings and several million dollars of increased revenues annually, once charges are set to fully recover costs, supplies are properly charged, and outside medical services are better coordinated with internal clinic capacities. The audit also recommends one-time costs of approximately \$906,400 to improve the efficiency and management of supply consumption and charge capture, and to identify discrepancies between prices on supply invoices and contracts.

KEY FINDINGS

- SCVMC lost \$1.3 billion over the past 10 years, but its charges for medical services remain low. In fact, the hospital has some of the lowest rates in the County, as well as among neighboring counties, and it is unknown whether charges fully recover costs. More than 10,000 of the 66,000 items in the chargemaster have an effective date at least three years old and 1,664 items have an effective date prior to 1988.
- The County spends more than \$39 million sending patients to outside medical providers that in some cases could be served by SCVMC within existing resources. Current clinic capacity is underutilized by about 150,000 visits annually, while physician staffing exceeds budget by 22 FTEs, or \$7 million annually.
- Administrative and support services cost allocations are inaccurate and not based on federal OMB A-87 cost allocation requirements. Staff did not provide policies, procedures and defined methodologies on which the cost allocations should be based. Budget development is also hampered by insufficient policies, procedures and staffing.
- Supply policies are weak, and millions of dollars worth of supplies are never charged and billed to payers.
- At SCVMC, the charge entry and medical coding functions are not centralized, and coders report to various supervisors/managers, many of whom are not professional coders. A single manager is thus not responsible for overseeing these functions and addressing coding problems, which could result in erroneous patient charges, billing delays, and the hospital losing revenue and incurring penalties.
- Over a four-year period, as a result of weak policies and failure to adhere to policies, VMC wrote off 1,124 items of missing equipment and furnishings, which cost \$30.4 million and accounted for 94 percent of all items written off by the entire County. The extent of missing equipment and furnishings at the hospital and the cost to write-off such items occurred without the knowledge of the Board of Supervisors.
- Technology projects are not centrally planned, prioritized and overseen, and no system exists for tracking where technology funds are spent across the organization, and what projects and staff are supported.
- The Board's authority to accept reduced amounts for unpaid patient debts has been delegated to multiple County entities, resulting in inconsistent practices and conflict with the Ordinance Code.
- County-issued cell phones are being underutilized, policies governing cell phone assignment and use are inadequate, procedural criteria do not address which plans are appropriate for which staff, and what happens to phones issued to staff that leave County employment.

A copy of the full report is available at:

<http://www.sccgov.org/managementauditor>

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Executive Summary

This *Management Audit of Santa Clara Valley Health and Hospital System Administration and Support Services* was authorized by the Board of Supervisors of the County of Santa Clara as part of the County's Fiscal Year 2010-11 Management Audit Program, pursuant to the Board's power of inquiry specified in Article III, Section 302(c) of the Santa Clara County Charter. Although this audit was not selected through the Board of Supervisors' Management Audit Program risk assessment analysis, which identifies and prioritizes areas of County government for future audit, it was recommended by the Finance and Government Operations Committee and approved by the Board of Supervisors. This management audit was conducted under the requirements of the Board of Supervisors Policy Number 3.35, as revised on July 22, 2010. That policy states that management audits are to be conducted under generally accepted government auditing standards issued by the United States Government Accountability Office.

Purpose and Scope

The purpose of the management audit was to examine the operations, management practices and finances of various Santa Clara Valley Health and Hospital System (SCVHHS) Administration and Support Services, and to identify opportunities to increase their efficiency, effectiveness and economy. The audit scope initially contained 23 cost centers when the audit began on July 22, 2010, and was expanded at the direction of the Board to include 64 of approximately 300 cost centers in the Santa Clara Valley Medical Center (SCVMC) Enterprise Fund on September 2, 2010. The initial scope included cost centers related to admitting and registration, compliance and privacy, environmental services, financial services, general accounting, human resources, patient business services, information services, and resource management. The final scope added other finance functions, as well as agency administration, emergency management, medical records, protective services, and several other cost centers.

Report Highlights

The report contains 11 major findings and 56 recommendations. Full implementation of these recommendations would enhance Finance Division staffing, result in improved financial management and reduce expenditures by approximately \$14,110,200 annually. SCVHHS would achieve additional cost savings and several million dollars of increased revenues annually once charges are set to fully recover costs, supplies are properly charged, and outside medical services are better coordinated with internal clinic capacities. The audit also recommends one-time costs of approximately \$906,400 to improve the efficiency and management of supply consumption and charge capture, and to identify discrepancies between prices on supply invoices and contracts. A summary of the major findings and recommendations is provided below.

Inaccurate Administrative and Support Services Cost Allocations

In FY 2009-10, about \$99 million in budgeted overhead expenses for administrative and support services was allocated to SCVHHS departments. These expenses, known as the “corporate charge,” were allocated to SCVMC, Public Health, Mental Health, Children’s Shelter and Custody Health, Alcohol and Drug Services, Community Health Services, and Valley Health Plan (VHP). The audit found that staff did not provide procedures, policies and defined methodologies on which the cost allocations were based. Therefore, some components of charges were not properly allocated by staff. In addition, the charges were based on budgeted expenses without verification that they fully recovered costs. In FY 2010-11, unsupported charges to VHP were identified, resulting in a charge reduction of \$2.4 million. The audit makes recommendations intended to ensure the accuracy of overhead expenses, thereby fully and equitably allocating administrative and support services costs.

Hospital's Operating Loss Increases While Charges Remain Low

Santa Clara Valley Medical Center’s operating loss more than quadrupled between FY 2000-01 and FY 2009-10 and totaled \$165.7 million in FY 2009-10, resulting in a cumulative loss of \$1.3 billion over the past 10 years. The hospital has some of the lowest charges in the County, as well as among neighboring counties, but staff did not provide any policies, procedures or work papers documenting the methodology used to develop charges. Because it is unknown whether charges fully recover costs, the audit makes recommendations intended to ensure that policies, procedures and work papers are based on proper cost accounting methodologies to maximize ongoing revenues and minimize operating losses.

Unnecessary Purchase of Outside Medical Services

Some 45,000 patient visits and related ancillary services are provided annually by non-SCVMC providers to VHP-insured patients. Each of these services costs the County more than if these services were provided by SCVMC, resulting in total additional expenses of more than \$39 million in FY 2009-10. One factor that causes the hospital to send patients to outside providers is the belief that the hospital clinics are operating at capacity. However, the audit found that, compared to budgeted utilization and staffing plans, most clinics are underutilized by patients and overstaffed by physicians. The audit makes recommendations intended to improve the matching of physician staffing to patient workload, resulting in efficiencies estimated to save \$13.8 million annually.

Failure to Charge for Millions of Dollars Worth of Supplies

The primary method that the hospital employs to identify billable supplies used in patient care requires staff to peel labels off of supply packaging and stick the labels onto cards, which are then distributed to data entry staff to enter into billing systems. Due to the labor-intensive, manual nature of these processes, thousands of items are never charged, resulting in the failure to bill payers for millions of dollars worth of supplies.

The audit makes recommendations for improving the capture and billing of supplies, which would result in substantial increases in annual revenue.

Improvements Needed for Supply Policies, Contracts and Systems

Nurses and physicians purchase more than \$41 million worth of supplies and equipment to treat SCVMC patients each year. However, there are no comprehensive policies in place with regard to the selection or purchase of these supplies, and doctors and nurses are not adequately informed of either the differences in clinical outcomes or hospital costs resulting from their choice of supplies. Supply contract information is difficult to access, and prices are obscured by vendor practices. The audit makes recommendations intended to improve the nexus between supplies purchased and their efficacy and cost-effectiveness.

Information Technology Planning and Oversight is Weak

Technology projects within SCVHHS are not centrally planned, prioritized and overseen. Additionally, there is no system for tracking where technology funds are spent across the organization, and what projects and staff are supported. The audit makes recommendations intended to improve planning and oversight of SCVHHS technology projects to ensure that the highest priority projects are funded first.

Decentralized Medical Coding Limits Problem Solving

Charge entry personnel enter codes for inpatient or outpatient services, and medical coding personnel who are specially trained and certified update or correct codes and verify coding accuracy. However, at SCVMC, the charge entry and coding functions are not centralized, and coders report to various supervisors and managers, many of whom are not professional coders. A single manager is thus not responsible for overseeing these functions and addressing coding problems, which could result in patients being charged too little or too much, and the hospital losing revenue or incurring penalties. The audit makes recommendations intended to improve the accuracy and timeliness of medical coding, ensure that the chargemaster is current, and reduce the potential for lost revenues and increased costs.

High Level of Missing Hospital Equipment

As a result of weak policies and the failure to adhere to policies, SCVHHS departments, primarily SCVMC, wrote off more than \$30 million worth of equipment over a four-year period. These are items that staff were “unable to locate” during inventories. The extent of missing equipment at the hospital far exceeds any other County department, and the write-offs have occurred without the knowledge of the Board of Supervisors. The audit makes recommendations intended to improve the accountability for County assets, particularly hospital equipment, to reduce unnecessary expenditures for replacement of missing items.

Delegation of the Board's Authority for Compromise of Patient Debts is Unclear

At present, the County has multiple processes, different departments and widely varying levels of authority amongst persons charged with the review and write-off of certain types of SCVMC patient debts. These processes are driven by inconsistencies in multiple Board resolutions and the Ordinance Code. As a result, delegation of the Board's authority to compromise certain patient debts is not clear, and some of the processes in place are not well documented. The audit makes recommendations intended to clarify where the Board's authority to compromise debts rests, and ensure that compromise decisions are consistent and well documented.

Insufficient Budget Policies, Procedures and Staffing

The adopted FY 2010-11 SCVMC budget totaled about \$1.1 billion. The development of an accurate budget is hampered by insufficient policies and procedures, inadequate documentation of budget methods, justifications and assumptions, limited involvement of cost-center managers, no centralized responsibility for maintenance of organizational charts and similar information, and a shortage of staff to monitor revenues and expenditures. The audit makes recommendations intended to improve budgeting processes and oversight, and provide better control over hospital expenditures.

Underutilization of County-issued Cell Phones

Auditors examined a month's worth of cellular telephone invoices at the SCVHHS Information Services Department. More than half of cell phone minutes purchased were not used, and some cell phone plans were more expensive than necessary. Policies governing cell phone assignment and use are inadequate. For example, they do not address which cell plans are appropriate for which staff, and what happens to phones issued to staff that leave County employment. The audit makes recommendations for plan changes and deletions that would save an estimated \$40,000 per year in the Department, and potentially \$340,000 Agency-wide, as well as policy improvements intended to strengthen controls over telephone assignment and use.

Acknowledgements

We would like to thank the Deputy County Executive/SCVHHS Acting Director, the Chief Financial Officer, the Chief Medical Officer and all of the cost center managers and their staff for their cooperation and assistance throughout this management audit. Staff were cooperative, open and eager to identify methods by which SCVHHS Administration and Support Services can improve its operations and level of service to County residents. Managers, supervisors and line staff provided much of the data contained in the report to audit staff, and certain recommendations are the result of interviews with managers, supervisors and other staff during the course of the audit.

Introduction

This *Management Audit of Santa Clara Valley Health and Hospital System Administration and Support Services* was authorized by the Board of Supervisors of the County of Santa Clara as part of the County's Fiscal Year 2010-11 Management Audit Program, pursuant to the Board's power of inquiry specified in Article III, Section 302(c) of the Santa Clara County Charter. Although this audit was not selected through the Board of Supervisors' Management Audit Program risk assessment analysis, which identifies and prioritizes areas of County government for future audit, it was recommended by the Finance and Government Operations Committee and approved by the Board of Supervisors.

Purpose and Scope

The purpose of the management audit was to examine the operations, management practices and finances of various Santa Clara Valley Health and Hospital System (SCVHHS) Administration and Support Services, and to identify opportunities to increase their efficiency, effectiveness and economy. The audit scope initially contained 23 cost centers when the audit began on July 22, 2010 and was expanded at the direction of the Board to include 64 cost centers on September 2, 2010.

As part of this management audit, the Management Audit Division conducted more than 50 survey and fieldwork interviews with managers, supervisors and line staff in all portions of SCVHHS Administration and Support Services. Some of these interviews included tours of facilities and direct observations of staff as they conducted their regular duties. We also reviewed policies and procedures, laws and regulations, and internal management information or other reports related to the operations, and we requested and analyzed data from various information systems. Finally, we conducted a survey of county hospitals in the largest California counties in order to identify and compare key differences in practices in those counties versus the County of Santa Clara.

Audit Methodology

This management audit was conducted under the requirements of the Board of Supervisors Policy Number 3.35, as revised on July 22, 2010. That policy states that management audits are to be conducted under generally accepted government auditing standards issued by the United States Government Accountability Office. In accordance with these requirements, we performed the following management audit procedures:

Audit Planning—This management audit was recommended by the Finance and Government Operations Committee and approved by the Board of Supervisors. Prior to starting the audit, a preliminary management audit work plan was developed, and the Board's letter of introduction was provided to the auditee.

Entrance Conference—An entrance conference was held on July 22, 2010 with the SCVHHS Chief Financial Officer, cost center managers and other staff to introduce the

management audit team, describe the management audit program and scope of review, and respond to questions. The preliminary management audit work plan and a request for background information were also provided at the entrance conference.

Pre-Audit Survey – Audit staff reviewed documentation and interviewed more than 50 cost center managers and supervisors to obtain an overview understanding of SCVHHS Administration and Support Services, and to isolate areas of operations that warranted more detailed assessments. Based on the pre-audit survey, the work plan for the management audit was refined in early October.

Field Work – Field work activities were conducted after completion of the pre-audit survey, and included: (a) additional interviews with managers, supervisors and line staff; (b) tours of facilities and observations of staff on the job; (c) a further review of documentation and other materials provided by cost centers and made available by other sources, including the State; (d) analyses of data collected manually and electronically from systems maintained by cost centers; and, (e) surveys of other county hospitals to measure performance and to determine organizational and operational alternatives that might warrant consideration by the County of Santa Clara.

Draft Report – On December 23, 2010, an initial draft report was prepared and provided to the Deputy County Executive/SCVHHS Acting Director, who in turn provided the initial draft to SCVHHS management on January 19, 2011 for their review and feedback. Some sections of the audit were still in the process of being completed as a result of needing to delay meetings and data collection at the request of SCVHHS staff. As a result, a complete draft was subsequently provided on February 9, 2011.

Exit Conference – An exit conference was held on March 3, 2011 with the Deputy County Executive/SCVHHS Acting Director, Chief Financial Officer, Chief Medical Officer and other key managers to collect additional information pertinent to our report, to obtain their views on the report findings, conclusions and recommendations, and to make corrections and clarifications as appropriate. Following the exit conference, a revised draft was provided to SCVHHS management for its use in preparing a formal written response.

Final Report – Finally, this final report was prepared and issued. SCVHHS's written response is attached to the final report.

Description of SCVHHS Administration and Support Services

The SCVHHS Administration and Support Services Audit initially included 23 cost centers, with approximately 723 positions and a total budget of about \$104.3 million. This scope included cost centers related to admitting and registration, compliance and privacy, environmental services, financial services, general accounting, human resources, patient business services, information services, and resource management. On September 2, 2010, the Board expanded the scope to include a total of 64 cost centers, with approximately 962.9 full-time equivalent (FTE) positions and an estimated

expenditure budget of about \$173.2 million. The final list added other finance functions, as well as agency administration, emergency management, medical records, protective services, and several other cost centers. A description of the major areas included in the scope of the audit is provided below, and organizational charts for SCVHHS and Santa Clara Valley Medical Center (SCVMC) are provided as Attachments I.1 and I.2.

Agency Administration

Agency Administration includes the SCVHHS Chief Executive Officer and Director of Government Affairs, Public Communications, Administrative Services and Special Projects, along with an Executive Assistant, Administrative Services Manager and two analysts. These staff are responsible for all transmittals issued to the Board. Individual departments draft the transmittals and send them to administration for their review. Staff in this office also produce a variety of informal and formal employee communications; are involved in strategic communications, include efforts to inform, educate and raise awareness of SCVHHS's role in the community; advocate for and against State and federal legislation; and work on a variety of special projects. These can be as small as an opening event for a new clinic and as large as the development of the Children's Health Initiative. Finally, the majority of constituent issues go through this office.

The Director of Government Affairs, Public Communications, Administrative Services and Special Projects also supervises the staff person who is responsible for all communications and media relations, as well as crisis and emergency risk communications.

Finance

The Chief Financial Officer oversees all six finance departments, including Compliance and Privacy, Enterprise Fund Financial Services, General Accounting, General Fund Financial Services, Patient Access and Patient Business Services. Each department is discussed in more detail below.

- **Compliance and Privacy** – The Compliance and Privacy Officer leads a multidisciplinary team that investigates and fixes problems related to compliance with regulatory and billing standards and procedures, as well as confidentiality and privacy concerns. Staff ensure compliance with federal and State laws, including the Stark law that prohibits doctors from referring to themselves, other conflict of interest laws, and anti-kickback laws. Their main areas of concern are compliance with HIPAA and other regulations concerning confidentiality and privacy; compliance with billing and coding regulations, especially for Medicare and Medi-Cal; handling identify theft issues, and participating in internal and external audits.
- **Enterprise Fund Financial Services** – Staff in this department are responsible for compilation of the hospital's annual budget and certain aspects of the annual

budget process. This includes developing the annual expenditure budget, the detail of the Other Revenues account, and budget statistic projections, such as patient days and outpatient visits. Staff also collect information on productivity and revenue statistics, publish monthly statistics and dashboard reports, manage the listing issuance and deletion of cost centers, budget and monitor fixed assets, and oversee the Valley Health Plan budget, and payroll and position budget.

- **General Accounting** – This department is comprised of five units: cost reporting and reimbursement, accounts payable, financial systems, general accounting, and nurse timekeeping.
- **General Fund Financial Services** – The “General Fund” departments of SCVHHS consist of Public Health, Mental Health, Children’s Shelter, Alcohol and Drug, and Community Health. In the case of Mental Health and Public Health, financial staff are physically located at those sites. All staff are involved with developing budgets, and working with program staff on budget modifications.
- **Patient Access** – This department was formed in March 2010 to bring together all financial counseling, admitting and registration functions at the hospital and clinics, and the SCVHHS is in the process of building a new infrastructure for the Department. Financial Counselors assigned to outpatient clinics now report to and are managed and supervised by Patient Access. Although registration staff have built a working relationship with Patient Access, they are managed by Dyads at the clinics. As part of the new organization, workflows are being changed and improved, new teams are being created, policies and procedures are being standardized, and new information technology is being implemented with the goal of becoming more proactive. Audit staff are encouraged by these and other changes being made at Patient Access.
- **Patient Business Services** – This department is responsible for billing many of the services provided at the hospital and outpatient clinics. The department is separated into a variety of units, including a Cash Unit; Denials Management/Charge Description Master Unit; Professional Fee Analyst Unit, which prepare charges before billing; Professional Fee Billing Unit, and Patient Accounting Units for mental health, Medicare and private insurance, Medi-Cal, and special programs. Another unit supports the billing systems.

Hospital Operations

A Director of Hospital and Ancillary Services oversees operations at SCVMC. This position is responsible for the hospital’s overall strategy in the Emergency Department, inpatient units and ancillary services. The Director helps guide and support administrative policies and procedures, as well as assist with regulatory reviews and licensing. All of the hospital’s senior leadership report to the Director. This includes the following departments:

- **Emergency Management** - An Emergency Management Coordinator oversees emergency management for the entire hospital. Her main role is to ensure that the hospital complies with all federal, State and local regulations related to emergency management, but she also participates in a variety of local and regional partnerships or coalitions and tracks all training that hospital staff are required to complete. The hospital has many plans, including an Emergency Operations Plan, Emergency Management Plan, and evacuation plans for all sites.
- **Environmental Services** - Regulations require that hospitals be cleaned end-to-end at least once every 24 hours. This department is responsible for carrying out that obligation by providing housekeeping and janitorial services at the hospital and outpatient clinics. Staff clean hallways and common areas, including restrooms and nursing stations, and provide daily cleaning of patient rooms, and clean patient rooms when patients are discharged. They use software that enables them to determine how many staff they need to clean each area and in what sequence areas should be cleaned for maximum efficiency. With each type of cleaning, there is a set cleaning regimen.
- **Medical Records** - This department is charged with ensuring the integrity and protection of medical records, ensuring that the records are transported to the clinics for patients who will be seen that day, and overseeing long-term storage of records at a remote facility operated by a contractor called Iron Mountain. They also order the retrieval of those records and release records to patients and attorneys. The department also has an inpatient coding function and performs transcription.
- **Protective Services** - This department is staffed by non-sworn security personnel, Protective Service Officers (PSOs) and Hospital Communications Operators, who operate the switchboard. The PSOs are responsible for maintaining the security of patients, visitors and staff, and protecting the physical assets of the facility. The PSOs are involved primarily in de-escalating patient/visitor situations, transporting and securing patient valuables, providing staff escorts, and under the direction of medical staff, assisting clinical staff with controlling uncooperative and/or combative patients.
- **Resource Management** - This department is responsible for processing supplies for the operating rooms, placing small purchase orders and releasing contracts for the hospital, managing cost under the Novation Group Purchasing Organization contract, managing service contracts, and overseeing several subunits, including linens, receiving, equipment control, and the supply room.

Human Resources

Human Resources is comprised of the following five units: classification, recruitment and certification, nurse recruitment, employee support, administrative support, and

position control and assignment. Classification staff are responsible for all new classifications, reclassifications, reallocations, recruitments and examinations within SCVHHS. Recruitment staff perform job analysis, create job bulletins, screen applicants, develop written, oral and competitive exams, work with managers on extra help requests, and handle personnel actions, such as transfers and promotions. A nurse recruiter performs similar functions for all clinical nurse classifications. The Certification Team is primarily responsible for tracking staff participation in the County's driver training program. They also enter new recruitments into the NeoGov system, arrange, proctor and score written examinations, and arrange interview panels and track the results.

The Employee Support Unit provides direct support to SCVHHS employees in making changes to benefits, entering new employees into the PeopleSoft system, answering questions about employees' leave balances, and other basic personnel functions. This unit also carries out the orientation sessions held every Wednesday for new SCVHHS employees at which benefit forms and basic policies and procedures are explained. As part of that process, the unit assists the new employees with benefit enrollment. In addition, administrative support staff work the reception desk and answer incoming phone calls. It also processes the daily mail and is responsible for issuing employee badges.

Staff assigned to position control and assignment track the status of positions within SCVHHS, including where all positions are in terms of their classification, code and filled status. Because of the unit's intimate knowledge of the Agency's positions, it is also responsible for the reasonable accommodation program for employees who are hurt on the job and want to return to work, but are limited in the duties they can perform. Finally, the unit coordinates the Agency's bilingual program, in which staff members working in positions for which bilingual skills are deemed necessary receive a pay differential.

Information Services

The function of the Information Services Department is to operate and maintain information systems, computing operations, applications development, help desk and network and data infrastructure for the whole of SCVHHS. According to the FY 2008-09 Annual Report, the Information Services Department "...provides the appropriate enabling information technology solutions to assist all of the SCVHHS organizations to succeed in their mission, strategic and business goals." The Department is overseen by a Chief Information Officer (CIO) and is comprised of three major divisions, as follows:

- **Technical Services**– Six years ago, this division was re-organized, combining help desk and support functions from the departments of Public Health, Mental Health and Alcohol and Drugs into one access point. All units in the division report to the Deputy Director. Staff assigned to the Help Desk provide SCVHHS staff who call or email for assistance with 24/7 support. All help requests are

logged via the Remedy ticket system. In addition, Field Service Technicians install, patch and maintain enterprise systems and application software, mostly through remote technologies. Field Service Technicians also replace and install hardware. Finally, a Data Center/Operations Unit maintains the server and network, while a Security/New Technologies Unit runs security tests of IS systems, and tests and develops new technologies.

- **Application Services** - This division is comprised of three units that report directly to the CIO. Staff, who are primarily analysts, partner with their internal customers to develop and build systems for the business and clinical departments within all of HHS. One unit looks after systems development for the General Fund health departments (i.e., Mental Health, Public Health, and Alcohol and Drugs). The other two units divide their functions into business and ancillary systems development, and clinical applications.
- **Finance and Administration** - Staff assigned to this division work directly with the CIO. Finance and Administration processes invoices, records expenditure data for all of IS, maintains timekeeping and updates records for payroll, and performs administrative functions directed by the CIO.

The Information Services Department also works with a Clinical Informaticist, currently the Associate Medical Director, who has a dual background of being medically trained as well as systems-trained to bring a clinician's view to systems development.

Accomplishments

Management audits typically focus on opportunities for improvements within an organization. To provide a more balanced perspective on operations, Section 8.48 of the Government Auditing Standards, 2007 Revision, published by the United States Government Accountability Office, requires that the management audit report include "positive aspects of the program reviewed." In order to permit SCVHHS to highlight accomplishments that it feels are the most noteworthy, Management Audit Division staff requested and received a list of accomplishments from the Agency. The entire list is included with the report as Attachment I.3.

Topics Requiring Additional Review

Some issues identified during a management audit either are not of sufficient significance to warrant the preparation of a separate finding, or there are not sufficient hours budgeted for the audit to conduct the review and analysis of the issue. In such cases, these lesser issues are reported in the Introduction so that the auditee is apprised of the issue and can take appropriate action, based on its own assessment. Audit staff identified eight such issues, which are reported below.

Staff Scheduling in Hospital Admissions

According to the Director of Patient Access, approximately one-fifth of all patients were never seen by a Financial Counselor because they were admitted on a Saturday or Sunday, and Financial Counselors in hospital admissions only work Monday through Friday, and predominantly during daytime hours. For example, a patient who was admitted at 8 p.m. on Friday would not be seen by a Financial Counselor until Monday morning, assuming that the patient has not been discharged. However, since the average length of stay is about three days, many people are discharged before Monday morning. The Discharge Team was created to catch these patients on the back-end when discharged, but they are following up with a large number of patients, and it becomes more difficult to obtain information after a patient has left the hospital. Consequently, Patient Access wants to staff hospital admissions seven days per week, rather than five. At the time of the audit, Patient Access was meeting and conferring with union representatives to alter staff scheduling in hospital admissions. Audit staff agree that this change is a priority need and recommend that SCVHHS report on its implementation to the Board of Supervisors.

Follow-Up with Emergency Department Discharges

Patient Access established a Discharge Team on April 2, 2010 to proactively call patients who were not seen by a Financial Counselor while at the hospital. Currently, the team only follows up with inpatients who are discharged. Financial Counselors on the team review these discharges to determine whether the patients are eligible for Medi-Cal or various other programs. The Discharge Team has been successful at initiating and closing new cases, enhancing the County's revenue. Between April 2, 2010 and July 21, 2010, the team generated about \$3.4 million from Medi-Cal because of cases that it initiated. During that same time period, the team closed about \$14.0 million in Medi-Cal cases initiated by someone else and \$2.6 million in Medi-Cal related disability cases.

The Discharge Team has not yet become involved with discharges from the Emergency Department (ED). Two Financial Counselors in ED Registration follow-up with these patients. However, they do not have any back-up if either of them goes on vacation or is out sick. Staff believe centralization of this function would have a real benefit, since asking staff to perform intake and follow-up creates competing demands, and proposed transferring these staff to the Discharge Team. The team would then be responsible for following up with all discharges from the hospital. Audit staff agree that this change makes sense and recommend that SCVHHS report on its implementation to the Board of Supervisors.

Outpatient Registration and Financial Screening

The Director of Patient Access has a vision to centralize registration so that hubs of staff, rather than individual registrars at each clinic, perform the function. This will require looking at the amount of time that staff answer phones versus register patients. Furthermore, at the time of the audit, most patients were registering for an

appointment, then going to their appointment and finally being referred to a Financial Counselor for screening. Ideally, patients would be registered and screened before they show up for their appointment.

As a result, in January 2010, SCVHHS implemented a pilot project called the Financial Clearance Center at the Gilroy Clinic. The purpose of the project was to perform financial screening of patients prior to their appointment at the clinic. To accomplish this, the Information Services Department retrieved appointment registration data on patients with appointments a week or two weeks out and ran this information against eligibility information. Any patient without coverage from a private or public payer was moved to a work list for a Financial Counselor to contact. They verified whether these patients had an open case and made an appointment to screen them for a program. Although the project is just a pilot, SCVHHS would like to implement it across the agency since it may be helping to reduce the unsponsored rate at the clinic. SCVHHS should report on the status of this effort to the Board of Supervisors.

Returned Bills

Approximately 25,000 to 36,000 bills are returned annually due to incorrect addresses. There are three different kinds of returned mail, and PBS handles each differently:

1. "Brown and White" statements - These bills have incorrect addresses or zip codes that were entered at registration. They are caught by the Invision billing system before being mailed, and returned to particular units (e.g., Medicare, Commercial Insurance) to correct.
2. No corrected address - These are bills that were mailed with incorrect addresses and are returned with no forwarding address. These bills are given to a PBS Information System Analyst who enters a "P" credit rating on the account. Once an account has a P rating, statements are no longer generated or sent to the same incorrect address; instead, the account is sent to the Department of Revenue for collections.
3. Corrected address - PBS pays 50 cents per letter to the U.S. Postal Service (USPS) to provide corrected addresses when available on returned letters. USPS affixes a card with the correct address to the returned letter. Audit staff was told initially that PBS did not have enough staff to rework these returned bills. The returned bills with corrected addresses were collected in a basket, but were usually thrown away because of insufficient staff time. As a result, a patient could be sent a bill three times to the wrong address, even though the USPS had returned the original bill with a corrected address.

PBS reported that it has since implemented a new system for handling returned bills with corrected addresses. Audit staff was told that each morning, the mail is separated, and if the mail contains bills with corrected addresses cards, they are sent to the PBS Information System Analyst who then enters the corrections in the system. The PBS

Patient Accounting office could not provide information on how many such bills with corrected addresses were worked, or the value of those bills. However, the Information System Analyst reported receiving two batches of bills with corrected address cards between November 19 and December 10, with 49 cards in the first batch and 780 cards in the second batch.

PBS staff also provided a Bad Address/Mail Return report. The report shows that the number of bad address mail returns has dropped significantly since April 2010, when 4,709 bills were returned, as compared to November 2010, when 1,617 bills were returned. This significant drop results from the adoption of the "P" credit rating system in May 2010, thus reducing the number of bad address return mail from repeatedly recycling through the system. A quality assurance system that is being overlaid on the billing system should help further reduce the number of mail returns. The system works by scraping for information and providing results. For example, it will interface with the USPS to verify addresses and notify staff of incorrect addresses at registration.

At the same time, SCVHHS should ensure that the Information System Analyst continues to receive and enter corrected addresses provided through the mail by the USPS. By entering corrected addresses, PBS can minimize the number of bills that get recycled through PBS and that eventually go to collection, and can thereby accelerate revenue collection.

Scanning Functions

The hospital has a large number of staff devoted to scanning documents into electronic viewing systems. It appears that some of the same records are scanned by different scanning units into different systems. In particular, the same patient "history and progress notes" is scanned by both the Medical Records Unit and the scanning unit of Patient Billing Services. This particular information is subject to confidentiality laws, and should be tightly controlled. While most of the documents that are scanned by each of these units appear not to be duplicated, the need for this patient information for billing purposes is questionable, as is the duplicative scanning of this information. Hospital management may wish to evaluate whether scanning carried out by various scanning units is necessary and not duplicative, and whether there is confidential material scanned into systems that are viewable by staff that do not have a need to view that information.

Medical Records Storage and Retrieval

The hospital spent at least \$853,000 from October 2009 to September 2010 to store and retrieve medical records through the vendor Iron Mountain. This expense is driven chiefly by the maintenance of many records on a highly accessible basis, and the retrieval of certain records during non-business hours. That is, much of the cost is not related to old patient records that are stored in boxes. Rather, much of the expense (\$318,000) is due to storage of records available as individual files (known as "open shelf" storage) at about 35 cents per file. This is distinguished from storage of files in

boxes. Additionally, the hospital spends \$95 each to retrieve individual files on an immediate basis outside of normal business hours. The hospital spent about \$98,000 to retrieve 1,029 records on this “stat-after hours” basis from October 2009 to September 2010. While these retrievals are critical to the provision of emergency medical care and thus cannot be eliminated or reduced, the hospital may wish to evaluate whether those particular patient records, which tend to be for psychiatric patients, could be prioritized for scanning into a viewer system that would over time reduce the need for immediate, round-the-clock physical record retrieval. The hospital may also wish to determine if some of the “open shelf” files could be stored more cost effectively in boxes.

Recovering Disaster-Related Costs

The Government Finance Officers Association (GFOA) has published best practice information on ensuring adequate documentation of disaster-related costs to support claims for disaster recovery assistance from all levels of government. The GFOA provides many recommendations related to establishing written policies and procedures, providing financial and non-financial staff with training, incorporating a disaster clause into all contracts, establishing controls for emergency supplies, and ensuring sufficiently detailed documentation to support costs. Some of these have already been incorporated into SCVMC’s Emergency Management Plan (EMP) and SCVHHS policies and procedures. For instance, EMP Policy # 8-21 provides procedures on applying for Federal Emergency Management Agency financial aid, EMP Policy # 12-0 describes the jobs, including those for finance staff, that are the core of the Hospital Incident Command System, and SCVHHS Policy #790.0 provides procedures for tracking disaster preparedness, terrorism preparedness and incidence response expenses using specific Internal Order codes.

However, management admitted that existing policies and procedures could be strengthened and additional training would be beneficial. Most training takes place approximately every six months during drills or exercises, but management would like to provide training that clarifies how to track and claim incremental costs related to a disaster. SCVHHS should provide this training and incorporate all of the GFOA’s recommendations when updating the EMP. Taking these actions would help ensure that SCVHHS is able to maximize any financial aid that is claimed during a disaster.

Environmental Services Staffing

The Environmental Service Department has approximately 300 employees, staffing 218.9 budgeted full-time equivalent (FTE) positions. They are responsible for cleaning 1.5 million square feet of the hospital campus, plus all of the clinics, in three shifts. Cleaning occurs 24 hours a day, seven days a week. Over the past three years, they have used an electronic system to coordinate and schedule cleaning in the most efficient manner possible.

According to management, the Department has a lot of turnover in janitorial positions because of the type of work and low pay. However, in recent years, the Department

has had difficulty filling vacant positions as a result of having to freeze vacancies in order to ensure that there is a job available for County staff in departments where a budget reduction may occur. This has resulted in numerous vacancies that cannot be filled. Audit staff asked whether anyone had ever been cut from another department and taken one of these jobs. Managers said the only time it occurred was during the last budget reduction when the County Facilities and Fleet Department cut janitors, and a couple of janitors went into SCVHHS housekeeping.

Management also reported that staff are frequently out on workers' compensation leave or family medical leave. At the time of the audit, managers estimated that a couple dozen FTE positions were out on some type of leave. Some of them were out for a year or more. Audit staff obtained leave information and found that the Environmental Services cost center (6806) had the highest number of leaves of all SCVMC cost centers in FY 2009-10. Combined with the Department's other cost center for SCVHHS Office Janitorial Service (6807), the Department had a total of 114 leaves in FY 2009-10. Nearly three-quarters of these leaves were due to workers' compensation or family medical leave.

The Department makes up for the leaves and vacancies through a combination of overtime and extra help. In FY 2009-10, the Department spent a total of about \$615,000 on overtime and \$1.3 million on extra help, including overtime, based on payroll records. Consequently, the Department spent more than \$1.9 million on overtime and extra help in FY 2009-10 – more than any other administration or support function.

The problem with using extra help is that they can only be used for 1,040 hours per year. At that point, the Department has to release them and hire someone else. According to management, the process of hiring a new extra help person takes about 1.5 to two months. Furthermore, every person brought in to perform cleaning, whether extra help or permanent, requires two weeks of direct, full-time training in infection control, blood-borne pathogens, hospital procedures, emergency codes and general cleaning requirements. After that, they shadow an existing janitor while rotating through different areas of the hospital and clinics for about 1.5 to two months, and then they are put on the floor to clean on their own. A third of an extra help person's time is thus spent on training. Between hiring and training new extra help, the Department experiences a three to four month loss of productivity. The Department has asked to hire people off the certified list. However, according to management, the County Employee Services Agency (ESA) will not let them do this because other people in the County may also be qualified.

SCVHHS has worked extensively with ESA on finding a solution to these staffing problems in the Environmental Services Department. Because an agreeable solution has not been found, the Board of Supervisors should consider lifting the 1,040-hour limitation on the use of extra help for the hospital's janitorial positions, which perform a critical function, or contracting the service in specific areas of the hospital and/or clinics. Recently, the Board approved a similar extension of extra help hours for 15 registered nurses working at SCVMC. Implementing this recommendation would lessen the need

for more costly overtime and ensure that the hospital's cleanliness is maintained and meets all requirements.

Survey of Other County Hospitals

To gain an understanding of distinctions and similarities between SCVHHS Administration and Support Services and parallel organizations in other counties, we developed a survey and solicited responses from county hospitals in the State's largest counties, including the County of Santa Clara. The four county hospitals, in addition to SCVMC, that responded to the survey, either fully or partially, were Riverside County Regional Medical Center, San Bernardino County Arrowhead Regional Medical Center, San Francisco General Hospital and San Mateo Medical Center. When appropriate, information from the surveys has been included in various sections of this report. It should be noted that the survey responses contain self-reported information. The Management Audit Division did not verify the accuracy of the reported information. A summary of survey responses from each hospital is included as Attachment I.4. Copies of the full response from each jurisdiction are available upon request.

Recommendation Priorities

The priority rankings shown for each recommendation in the audit report are consistent with the audit recommendation priority structure adopted by the Finance and Government Operations Committee of the Board of Supervisors, as follows:

Priority 1: Recommendations that address issues of non-compliance with federal, State and local laws, regulations, ordinances and the County Charter; would result in increases or decreases in expenditures or revenues of \$250,000 or more; or, suggest significant changes in federal, State or local policy through amendments to existing laws, regulations and policies.

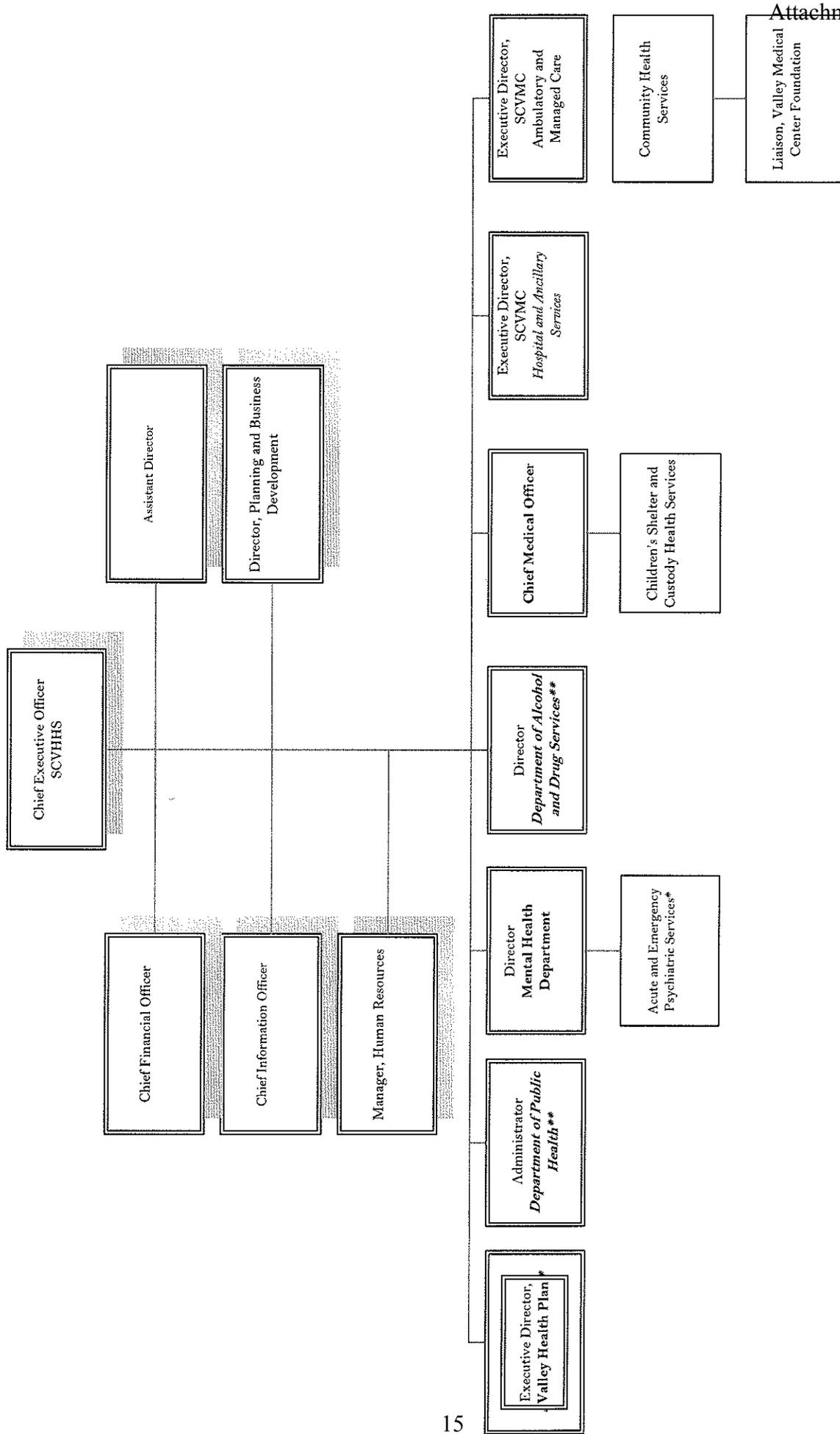
Priority 2: Recommendations that would result in increases or decreases in expenditures or revenues of less than \$250,000; advocate changes in local policy through amendments to existing County ordinances and policies and procedures; or, would revise existing departmental or program policies and procedures for improved service delivery, increased operational efficiency, or greater program effectiveness.

Priority 3: Recommendations that address program-related policies and procedures that would not have a significant impact on revenues and expenditures, but would result in modest improvements in service delivery and operating efficiency.

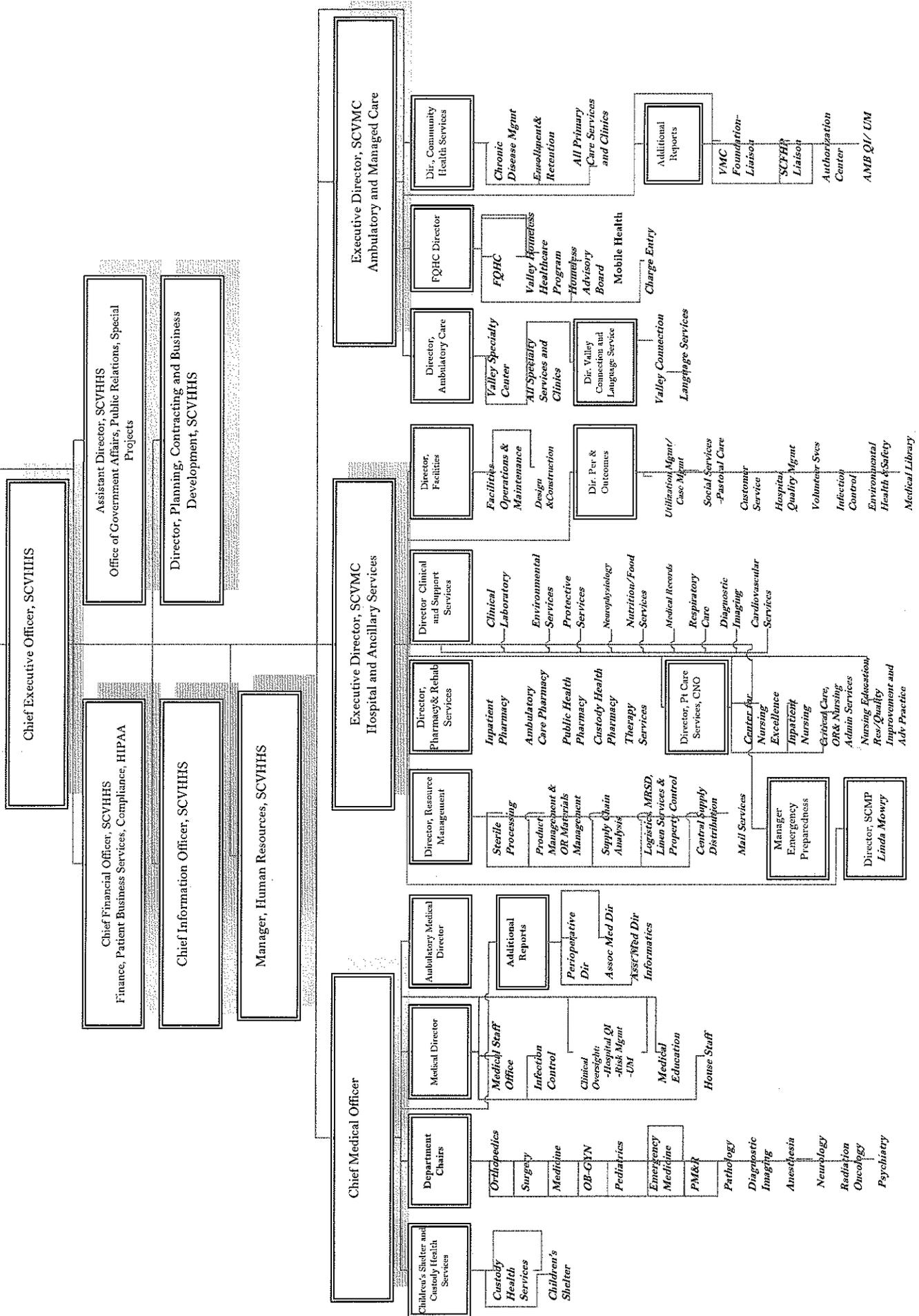
Acknowledgements

We would like to thank the Deputy County Executive/SCVHHS Acting Director, the Chief Financial Officer, the Chief Medical Officer, and all of the cost center managers and their staff for their cooperation and assistance throughout this management audit. Staff were cooperative, open and eager to identify methods by which SCVHHS

Administration and Support Services can improve its operations and level of service to County residents. Managers, supervisors and line staff provided much of the data contained in the report to audit staff, and certain recommendations are the result of interviews with managers, supervisors and other staff during the course of the audit.



*Also accountable to Executive Director, SCVMC, Hospital and Ancillary Services



SANTA CLARA VALLEY MEDICAL CENTER RECENT ACCOMPLISHMENTS

Santa Clara Valley Medical Center is one of 15 hospitals in Northern California to be recognized by the U.S. Department of Health and Human Services. SCVMC received the Medal of Honor for its participation in the HHS *Organ Donation Breakthrough Collaborative*. The collaborative brings together donation professionals and hospital leaders, who work together to identify and share best practices for supporting families and clinically managing patients who are organ donor candidates.

The **Labor & Delivery Unit** was positively featured in a Mercury News story about high rates of cesarean sections. Among 253 hospitals in California, new mothers with low-risk pregnancies at SCVMC had a 10% chance of giving birth by c-section. This rate was lower than the state average of 16% for nonprofit hospitals.

The **Neonatal Intensive Care Unit** successfully treated infants with a whole body (or therapeutic) cooling technique. Research done by Beth Israel Deaconess Medical Center showed that body cooling can lead to a 23% reduction in the number of newborns likely to develop permanent damage to the central nervous system. Our NICU is the only hospital in SCC providing this specialized service.

The **Pediatric Health Lifestyle Clinic** partnered with Second Harvest Food Bank to bring fresh produce to VHC East Valley and provide that produce free to low-income families. This innovative approach to help families learn to eat healthier has been happening monthly at that site since last summer. In addition, the program provides gym membership for the whole family to elevate the health of the child and his/her family.

The **Rehabilitation Center** at Santa Clara Valley Medical Center celebrated its 40th anniversary in 2010. Recognized nationally as a center for excellence, the Rehabilitation Center has treated more than 15,000 patients with spinal cord and traumatic brain injuries, as well as strokes and other neurological conditions resulting in disability. The Rehabilitation Center continues to be a leader in research that provides unique and important contributions to the field of rehabilitation medicine and has been accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF). The Center and the Burn Unit were recognized for outstanding quality by PRC, a national patient satisfaction survey company, for being top performers in the U.S.

Santa Clara Valley Medical Center's **Diabetes Center** was awarded the prestigious American Diabetes Association Education Recognition Certificate for having an excellent diabetes self-education program. The certificate is awarded to programs that offer high-quality education, which is an essential component of effective diabetes education.

Dr. Kazuko Shem of the **Rehabilitation Center** developed a seated **Tai Chi Program** so that patients in wheelchairs and individuals who cannot safely practice standing could do so while seated. This project was partially funded by the Christopher and Dana Reeve Foundation Quality of Life Grant. In addition to weekly classes, DVDs of the seated Tai Chi movements were distributed to the students in the class. Dr. Shem's study tracks pain, emotional well-being and mental focus over the 12 weeks of participating in the class. Class member have all shown improvement significantly after each class. This project has been presented at national conferences and articles have been published in San Jose Mercury News and the "Action" magazine, the national magazine of the United Spinal Association.

SANTA CLARA VALLEY MEDICAL CENTER RECENT ACCOMPLISHMENTS

The **Spinal Cord Injury Unit** at Santa Clara Valley Medical Center, with Stanford University School of Medicine, became the third site in the nation to participate in the first clinical trial of human embryonic stem cells to be administered to patients with spinal cord injuries. Only seven sites in the entire nation will be part of these trials. Phase 1 of the trials tests the safety of the cells. The cells for this portion of the trial will be thawed and prepared at Stanford, and the surgery to implant the cells will take place at Santa Clara Valley Medical Center, which is one of the largest referral centers for acute spinal cord injury and rehabilitation on the West Coast. SCVMC treats more than 150 people a year with severe spinal cord trauma, many of which are caused by motor vehicle accidents, falls and sports injuries.

In 2010, the **Trauma Center** at Santa Clara Valley Medical Center was verified as a Level I Trauma Center and a Level II Pediatric Trauma Center by the Verification Review Committee of the American College of Surgeons. This achievement recognizes the Trauma Center's dedication to providing optimal care for injured patients. Verified trauma centers must meet essential criteria that ensure the competence of their trauma care as outlined by the American College of Surgeon's (ACS) Committee on Trauma.

Santa Clara Valley Medical Center partnered with Stanford University Medical Center to research the administration of progesterone to improve the recovery of patients with **Traumatic Brain Injuries** (TBIs). Approximately 1.5 million people suffer from Traumatic Brain Injuries each year and TBIs are the leading cause of disability for individuals under age 44. The trials enable researchers to see whether or not progesterone works to decrease brain damage from a traumatic brain injury. SCVMC selection for participating in this nationwide study reflects the expertise of our staff and recognized the critical aspect of services provided at SCVMC. Studies such as this one keep the medical center at the forefront of improving techniques and setting a high standard of care.

The newest addition to the network of primary care health centers operated by Santa Clara Valley Medical Center, **Valley Health Center Milpitas** opened in 2010. As part of Santa Clara County's public healthcare system, VHC Milpitas is dedicated to the health of the whole community and to meeting the medical needs of Milpitas and north San Jose residents. VHC Milpitas provides excellent, cost-effective and appropriate medical services in a professional setting that meets the needs of patients and clients. With leadership provided by the Santa Clara County Board of Supervisors, VHC Milpitas supplies community-based services in an area that was previously underserved.

During the **whooping cough outbreak**, the medical center organized a working group of nurses and physicians, with pharmacy, administration and communication staff to plan and implement a vaccination program. Because SCVMC was able to successfully vaccinate staff who worked in high-risk areas and/or who would encounter patients, as well as our patients and clients who meet the criteria for vaccination, SCVMC inpatient departments had no patient cases of whooping cough during the outbreak. Materials were developed so that families would understand they needed to get the vaccine to protect their babies.

In 2010, Santa Clara Valley Medical Center developed and produced a number of materials that met regulatory requirements and/or provided information about diseases and conditions to influence the behaviors, decisions and choices patients and clients make about their health and accessing the services we provide. Health communication

SANTA CLARA VALLEY MEDICAL CENTER RECENT ACCOMPLISHMENTS

is a necessary element of efforts to improve personal and public health, and here are some examples of that work:

- **Pharmacy Mail Order** materials and collaterals were developed to encourage patients and their physicians to sign up for Mail Order prescription refills, which is more efficient and less costly;
- **Call, Don't Fall** brochure to help prevent falls and further injury while in the hospital and meet a significant The Joint Commission requirement;
- Flyers distributed to encourage patients to access educational opportunities through a **Cancer Support Group** conducted in Spanish;
- **Diabetes Center** brochure provides preventative and other important information to help patient manage their diabetes;
- **Prenatal Classes & Hospital Tours** booklet is offered to new parents so that they can get the education they need to realize better health for mom and baby;
- **Trauma Center's** Wear a Helmut and Keeping Kids Safe In and Around Cars brochures provided to the community to help prevent these kinds of injuries in children.

Survey of California County Hospitals

	Riverside County Regional Medical Center	San Bernardino County Arrowhead Regional Medical Center	San Francisco General Hospital	San Mateo Medical Center	Santa Clara Valley Medical Center
As of October 1, 2010, how many stand-alone outpatient clinics did the hospital operate? If your hospital does not manage the County clinics, or has none, indicate zero or leave blank.					
	0. The hospital only operates hospital-based clinics.	3	The SF Department of Public Health oversees the Primary Care Health Centers. SFGH has 3 of those clinics: Children's Health Center, Family Health Center, and the General Medical Clinic.	11	9
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, across all departments in the hospital and clinics?					
Budgeted FTE		3108		1216	5103.57
OR Actual FTE	2127		2600		
Can you provide us with the current organization chart for all hospital administrative and support services (non-patient care areas)?					
	Yes, we will provide them	Yes, we will provide them	Yes, we will provide them	Yes, we will provide them	Yes, we will provide them
EMERGENCY PREPAREDNESS					
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, assigned to cleaning and janitorial services at the hospital and clinics?					
Budgeted		1	1	10 (Committee)	
OR Actual	2				1
What job classifications are used for these positions, including supervisory staff?					
	Safety Officer Office Assistant III	Nursing Program Coordinator RN	2533 Emergency Medical Services Agency Specialist		Administrative Nurse II
Have you identified any funding sources to offset the cost of these positions?					
	No	No	No	No	No
JANITORIAL					
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, assigned to cleaning and janitorial services at the hospital and clinics?					
Budgeted FTE		147.3		51.1	228.54
OR Actual FTE	98.26	139.53			
In FY 2009-10, approximately how much did the hospital and/or clinics spend on overtime and temporary help in the janitorial/environmental services function?					
	\$497,250	\$153,728		\$50,000	\$2.2 million
SCANNING					
For documents that are scanned into an electronic system, how are scanning staff organized throughout the hospital and clinics?					
	No scanning is done	All or virtually all scanning is carried out by a centralized in-house scanning unit	No scanning is done	Various units around the hospital have their own scanning functions (i.e., scanners are employed by different departments, such as admitting, medical records, the billing office, the lab, etc.)	All or virtually all scanning is carried out by a centralized in-house scanning unit
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, that scan documents into one or more electronic systems? Please include only staff who are employed exclusively or primarily for scanning. Count two half-time positions as one position. Skip this question if no scanning is done, or if scanning is carried out by an outside vendor.					
	No scanning is done.	More than 50		1 to 10	1 to 10
Other (please specify)					All HIM staff are cross trained. There are 2 chartless locations with 1.5 FTE for scanning, exclusively. Due to hybrid model, only 2 locations use clerk FTE for scanning.
After paper records have been scanned, how long are they stored prior to destruction?					
	No scanning is done.	1 month to 1 year		Less than 1 month	1 month to 1 year

Survey of California County Hospitals

	Riverside County Regional Medical Center	San Bernardino County Arrowhead Regional Medical Center	San Francisco General Hospital	San Mateo Medical Center	Santa Clara Valley Medical Center
In FY 2009-10, approximately how much did the hospital and clinics spend to store, retrieve, and destroy paper records? Please include the cost of on-site, in-house services as well as vendor costs. Please do not include the cost of electronic storage.					
	Less than \$500,000	\$500,000 to \$1 million		Less than \$500,000	\$1 to \$2 million
MEANINGFUL USE					
Through the HITECH legislation, a part of the 2009 American Recovery and Reinvestment Act, health providers will be given incentives to maximize the role of health information technology as a means to improve patient care. To receive Stage 1 incentive payments in 2011, hospitals are required to fulfill certain criteria that demonstrate adequate use of electronic health records. Does your County hospital expect that it will obtain these incentives for "meaningful use" of electronic medical records in 2011?					
	Yes	Yes		Yes	Yes
	RCRMC schedule for EHR completion is Year 2012. MU criteria capture in 2010 is Order Results Viewing and Ancillary systems.				
CODING					
Is the coding function generally centralized or decentralized at the hospital and clinics?					
	Coding is centralized, all coders work in one Department	Coding is centralized, all coders work in one Department		Coding is centralized in the hospital, but the clinics each have their own (for hospitals that also operate clinics)	Coding is centralized in the hospital, but the clinics each have their own (for hospitals that also operate clinics)
If centralized, please name the department or unit with responsibility for the function below:	HIM (Medical Records)	Main responsibility - Medical Records Depts; however a few clinics are still centralized.			HIM codes inpatient and ASU charts; does not code clinic, pro fee or ED charts.
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, that perform coding at the hospital and clinics?					
Budgeted FTE	14	17			
OR Actual FTE				4	8.75
What job classifications are used for these positions, including supervisory staff?					
	Supervisor Medical Records Coding Certified Coder; Medical Records Coder			Medical Record Coder II Medical Record Technician II	Health Info Tech I and II
If there is a backlog of charts awaiting coding, please quantify the backlog in number of charts, days and/or dollars below:					
Number of charts	2000	0		59	842
Number of days					10
Value \$\$				448130	\$45 M
BILLING SYSTEMS & PATIENT BILLING					
Please list the names of the billing system(s) for each of the patient charges for the services listed below:					
Hospital inpatient	Siemens Invision, MDX (Government Payers)	DSG - Data Systems Group		Siemens/DSG	Invision/Data Systems Group
Hospital outpatient	Siemens Invision, MDX (Government Payers)	DSG - Data Systems Group		Siemens/DSG	Invision/Data Systems Group
Professional (physician)	N/A - RCRMC does not bill for physician services	DSG - Data Systems Group		Siemens/DSG	Signature
Pharmaceutical	Siemens Invision, MDX (Government Payers)	Foundation Billing System		Siemens	PCSI
Mental health inpatient	Siemens Invision, MDX (Government Payers), DMH Short Doyle - SPUDS	Simon (Medi-Cal Inpatient)		Siemens/DSG	Invision/Data Systems Group/Claim Remedi
Mental health outpatient	Siemens Invision, MDX (Government Payers), DMH Short Doyle - SPUDS	DSG - Data Systems Group		Siemens/DSG	Unicare/Claim Remedi
Approximately how many patient bills (claims) are generated monthly?					
	17,000: 15,000 outpatient and 2,000 inpatient (taken from Month end Management report)	12000		36000	170,000 per month, excluding pharmacy claims

Survey of California County Hospitals

	Riverside County Regional Medical Center	San Bernardino County Arrowhead Regional Medical Center	San Francisco General Hospital	San Mateo Medical Center	Santa Clara Valley Medical Center
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) staff, excluding overtime and temporary help, who worked doing patient billing, across all billing systems?					
Budgeted FTE	17	40		32	146.5
OR Actual FTE	17	37			
Approximately how many patient bills are returned by mail annually?					
	200-500 per month	78000		7000	36000
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) staff, excluding overtime and temporary help, who worked on returned patient bills?					
Budgeted FTE	2	0		32	
OR Actual FTE	2	0			0.5
Approximately how many claims are denied annually?					
	20,000 (10%)			49000	120,000, includes partially paid claims. Many denials are overturned due to staff effort.
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) staff, excluding overtime and temporary help, who worked on denied claims?					
Budgeted FTE	17	2		32	
OR Actual FTE	17	2			5
SUBROGATION OF PATIENT DEBT					
Which of the following positions are authorized to compromise patient debt in cases where a third-party is liable for a patient's injuries? Check all positions that are authorized to independently compromise even small amounts of debt.					
	Head of the hospital	Head of the hospital		Board of Supervisors	Debt Review Committee and/or Lien Committee. Patient Business Services is a member of both committees.
	Head of the collections function or department	Head of the County's risk management function		Head of the hospital	
	One or more collections officers	Head of the collections function or department			
	The RCRMC authorization process specifically outlines the signature authority. The Hospital CEO is delegated authority from the Board of Supervisors to negotiate compromises on behalf of the County from insurance companies and self-pay patients.	One or more collections officers			
Is there a maximum amount or percentage that staff are authorized to compromise without review by the Board of Supervisors or County Executive?					
	Maximum threshold for Patient Accounts Officer is 5% of total charges. The Hospital CEO is delegated authority from the Board of Supervisors to negotiate compromises on behalf of the County from insurance companies and self-pay patients.	Yes, 5% of the charges		No	Debt Review Committee is authorized up to \$100,000. Lien Committee is authorized for all percentages.
Can you provide a copy of your subrogation policy or policies, and the most recent Board resolution(s) establishing authority for compromise of patient debt?					
	Yes, we will provide them	No, we don't have any or they are being revised/developed		Yes, we will provide them	Yes, we will provide them
INFORMATION SERVICES					
As of October 1, 2010, what was the approximate number of budgeted or actual full-time equivalent (FTE) positions, excluding overtime and temporary help, assigned to the development and deployment of information technology and management information systems functions? Include positions such as help desk, applications development, systems support, field technicians, Departmental systems analysts, etc.					
	29 FTEs	39.3		24.4	158
In FY 2009-10, approximately how much did the hospital and clinics spend on information services/technology systems?					
	~ \$7,986,000	\$8.7 million		\$9,929,930	\$35.5 million

Survey of California County Hospitals

	Riverside County Regional Medical Center	San Bernardino County Arrowhead Regional Medical Center	San Francisco General Hospital	San Mateo Medical Center	Santa Clara Valley Medical Center
Approximately how many cell phones are assigned to information services/technology staff?					
	14	2. (Most employees, including hospital administration purchase and maintain personal cell phones)		9	136
What mechanisms are established to prioritize and oversee the development and purchase of information systems? Choose all that apply.					
	Executive-level Project Management Office	Manager-level Project Management Office		An active IT Governance Committee	An active IT Governance Committee
	The Hospital Executive Committee (HEC) monitors the purchase of all significant information systems. FYI, the HEC is composed of Douglas Bagley (CEO), Ellie Bennett (COO), David Runke (CFO), Arnold Tabuenca M.D.	Technology capital budgeting committee		Manager-level Project Management Office	Technology capital budgeting committee
				Technology capital budgeting committee	Group of business users who meet regularly to plan
				Group of business users who meet regularly to plan	Medical technology users meet regularly to plan
				Cross-Departmental managers group	
				IT Strategic Plans	
PATIENT SUPPLIES					
What is the lowest priced medical or other hospital supply (such as soap, toothbrush) for which you bill patients?					
	\$0 - \$5.00	\$10.01 - \$15.00		\$0 - \$5.00	\$10.01 - \$15.00
Which system best describes the method that you use to track supplies charged to inpatients?					
	The system will not allow 2 choices but we use: 1. Paper charge ticket (medical provider checks box for supply pre-printed on charge ticket) 2. Peel-and-stick system (medical provider removes labels affixed to supplies and places on billing card)	Peel-and-stick system (medical provider removes labels affixed to supplies and places on billing card)		Peel-and-stick system (medical provider removes labels affixed to supplies and places on billing card)	Peel-and-stick system (medical provider removes labels affixed to supplies and places on billing card)
LAUNDRY					
Which method does the hospital use to maintain clean linens?					
	An outside linen service (contracted)	An outside linen service (contracted)		An outside linen service (contracted)	An outside linen service (contracted)
FIXED ASSETS					
What was the approximate value of fixed assets in the hospital and clinics that were deemed "unlocatable" in the FY 2009-10 annual inventory?					
	Less than \$250,000	We do not complete and annual inventory of fixed assets; however per Bio-Medical Engineering, unlocatable equipment costs equal between 1.5% - 2% per year.		Less than \$250,000	Inventory results are still being compiled. Answer can be provided after 11/30.
Can you provide a copy of your fixed asset acquisition and disposal policy or policies?					
	Yes, we will provide them	Yes, we will provide them		No, we don't have any or they are being revised/developed	Yes, we will provide them
ACCOUNTS PAYABLE					
Payment of contract invoices is usually an accounts payable function. What is the approximate number of contract invoices paid per month, and the number of full-time equivalent (FTE) position responsible for processing payments?					
Number of contracts invoices paid per month	2000	3069		240	1135
Number of FTE	5			1	4

Survey of California County Hospitals

	Riverside County Regional Medical Center	San Bernardino County Arrowhead Regional Medical Center	San Francisco General Hospital	San Mateo Medical Center	Santa Clara Valley Medical Center
TIMEKEEPING					
Is the timekeeping function (i.e., entering and correcting time and attendance data) generally centralized or decentralized?					
	Timekeeping is centralized across all hospital departments	Timekeeping is centralized across all hospital departments		Timekeeping is centralized across all hospital departments	Each department manages its own time and attendance
If centralized, please name the department or unit with responsibility for the function below:	1. All regular employees and nurses time sheets are signed off by the department manager and processed thru the Medical Center Human Resources Payroll unit. The Auditor Controller's Office then authorizes the issuance of a check to each employee. 2. Nurse Registry time sheets are signed off by the Nursing Department and reviewed by the Fiscal Services Department which then processes the invoice for payment thru the Accounts Payable unit. The data is forwarded to the Auditor Controller's Office to issue a check.	Each department processes its own time, but all is finalized by the Human Resources Payroll department, and input into teh County EMACS Payrill system.			exception is nurse timekeeping, which reports to SCVHHS Finance

Section 1. Health and Hospital System Corporate Charge

Background

- For FY 2009-10, the Santa Clara Valley Health and Hospital System's (SCVHHS) annual overhead cost allocation of budgeted administrative and support service costs (referred to as the Corporate Charge) amounted to approximately \$99.0 million. These costs are allocated to operating departments in SCVHHS, including BU 921 Valley Medical Center, BU 410 Public Health, BU 412 Mental Health, BU 414 Children's Shelter and Custody Health, BU 417 Alcohol and Drug Services, BU 418 Community Health Services, and BU 725 Valley Health Plan.

Problem

- However, State and federal cost allocation standards require use of actual, not budgeted costs. In addition, none of the \$16.0 million of County-wide overhead costs attributable to SCVHHS administration and support are included in the SCVHHS cost allocation model. Further, SCVHHS does not have any written policies and procedures describing the purpose of, and justification for the charges, as well as the methodologies to be used in preparing the annual Corporate Charge cost allocations.

Adverse Effect

- As a result, due to previously described cost allocation inconsistencies, some components of the Corporate Charge have been overstated, some costs have been excluded, and some charges were determined not to be justified when SCVHHS staff reanalyzed the methodology that was used to make the Corporate Charge calculations. During FY 2010-11, SCVHHS reduced the annual Corporate Charge to BU 725 Valley Health Plan from \$4.3 million to \$1.9 million after determining that the charges were not supportable.

Recommendations

- By revising cost allocation procedures to charge based on actual costs in accordance with a detailed written procedure, tracking and accounting for actual costs where it is appropriate and efficient to do so, and including County-wide overhead costs in the Corporate Charge cost allocations, the SCVHHS Corporate Charge would fully and equitably allocate all administrative and support service costs in compliance with State and federal cost allocation standards.

Background

The FY 2009-10 Santa Clara Valley Health and Hospital System (SCVHHS) budget included seven major health and hospital functions that accounted for approximately \$1.45 billion of expenditures and included about 5,464 full-time equivalent positions. The health and hospital functions consisted of the following Budget Units (BU):

- BU 921-Santa Clara Valley Medical Center (SCVMC)
- BU 410 Public Health Department
- BU 412 Mental Health Department
- BU 414 Children's Shelter & Custody Health Services
- BU 417 Department of Alcohol and Drug Services
- BU 418 Community Health Services
- BU 725 Valley Health Plan

In addition, 19 separate SCVHHS central administrative and support services functions accounted for approximately \$99.0 million and about 778 full-time equivalent positions. These 19 administrative and support service functions included:

- 6850-Agency Administration
- 6861-Human Resources
- 6836-Patient Accounting
- 6871-Revenue Control
- 6827-Accounts Payable
- 6828-Grants Accounting
- 6829-General Accounting
- 6841-General Accounting-Cashier
- 6822-HHS Compliance
- 6835-Communications
- 6842-Finance Administration
- 6844-Gen Fund Finance/Budget
- 6845-HHS Reimbursement
- 6872-Enterprise Fund Finance
- 6837-Information Services
- 6809-Plant Maintenance
- 6806-Environmental Services
- 6807-Office Janitorial Services
- 6802-Security

State Controller and Federal OMB A-87 Cost Accounting Standards

Although SCVHHS provided very detailed work papers for the allocation of these administrative and support service costs, a number of issues were identified that could improve the accuracy of the cost allocations and compliance with State and federal cost allocation accounting standards. The California State Controller, as the delegated cognizance authority for California counties, is responsible to review and approve cost allocation plans and methodologies on behalf of the federal government in accordance with federal Office of Management and Budget (OMB) A-87 cost accounting standards. Consequently, the Office of the California State Controller has issued a *Handbook of Cost Plan Procedures for California Counties* to ensure consistency among counties and compliance with federal cost accounting standards when claiming State and federal grant and program reimbursements. Although SCVHHS staff reported that a federal auditor had accepted the corporate charge allocations in a recent audit, the current cost allocation procedures do not comply with federal OMB A-87 cost accounting standards that are derived from federal regulations, which individual auditors do not have the authority to override.

Actual Versus Budgeted Costs

State and federal grant and program reimbursements are generally based on actual costs, not budget estimates. The Code of Federal Regulations (CFR) 2-CFR Part 225 Appendix C Section G.3 permits use of estimated costs on a "fixed and carry-forward" basis, which requires accounting for the difference between the initial "fixed costs" and actual costs as an adjustment in the following year. Currently, SCVHHS calculates its annual administrative and support services costs and allocates these costs based on budget without making a roll forward adjustment to account for the differences between budget and actual costs as required by the State Controller (Attachment 1.1). A review of actual versus budgeted SCVHHS annual expenditures for BU 921-SCVMC Enterprise Fund over the past five fiscal years (FY 2005-06 through FY 2009-10) shows that actual expenditures averaged approximately 1.98 percent less than budgeted expenditures. If this relationship existed for the \$99.0 million of FY 2009-10 administrative and support services costs that were allocated based on budget, the overcharge to the six SCVHHS functions other than SCVMC (i.e., Public Health, Mental Health, Department of Alcohol and Drug Services, etc.) would amount to about \$553,000. In order to improve accuracy and comply with State and federal cost allocation standards, SCVHHS should make a year-end adjustment to its annual corporate charges to reconcile the difference between budgeted and actual costs.

Exclusion of County-wide Overhead Costs from Allocation

Although the SCVHHS cost allocation included 19 separate administrative and support service cost centers, County-wide overhead costs which are accounted for and allocated by the County Controller-Treasurer were excluded from the SCVHHS analysis. These costs amounted to \$17.6 million in FY 2009-10 and will be charged to Budget Unit 921-SCVMC in the coming fiscal year, FY 2011-12. The actual FY 2008-09 costs, which are budgeted in the FY 2010-11 budget, amounted to \$16.0 million. These central County costs include costs related to the County Executive's Office, the Office of Budget and Analysis, the Controller-Treasurer, Procurement, the Employee Services Agency and others. Based on discussions with Controller-Treasurer staff, who prepare the County-wide cost allocation plan which is reviewed and approved annually by the California State Controller's Office, these costs must be included in the SCVHHS corporate charge calculation to comply with OMB A-87. The effect of the exclusion of County-wide overhead costs from the SCVHHS corporate charge was to overcharge Budget Unit 921-SCVMC, since it absorbed 100 percent of the costs, and to undercharge the other six SCVHHS functions that would have received a portion of the allocation. Based on the average apportionment of SCVHHS administrative and support costs that were included in its \$99.0 million cost allocation, about 28.2 percent were allocated to the non-VMC functions, while 71.8 percent was charged to Budget Unit 921-SCVMC. Therefore, if that percentage were to apply to the FY 2010-11 County-wide overhead costs of \$16.0 million, approximately \$4.5 million would be allocated to the non-SCVMC functions. Consequently, County-wide overhead costs should be included in the SCVHHS corporate charge allocation.

No Written Corporate Charge Cost Allocation Policies and Procedures

Staff of SCVHHS Cost Center 6872-Enterprise Fund Finance are responsible for the preparation, documentation and monitoring of the BU 921-SCVMC and BU 725-Valley Health Plan annual budgets. In addition, the 3.9 full-time equivalent staff of this cost center perform position control and other budget related functions, including computation and allocation of the annual corporate charge, which totaled about \$99 million in FY 2009-10.

Approximately one year ago, the previous budget manager retired and the new budget manager reported that SCVHHS had no written policies and procedures pertaining to the annual corporate charge process. Although a complete set of spreadsheets are available for the new budget manager to follow, there is no narrative description of the methodologies to be used in making the allocations and why those methodologies were selected. Considering that seven major SCVHHS functions receive \$99 million of cost allocations from 19 separate categories of administrative and support service costs (133 possible cost allocations), a complete narrative description of the basis for the allocations and the justification for using the selected methodologies should be documented. Such documentation is necessary to satisfy managers of the SCVHHS functions being charged, as well as outside auditors, that the methods being used are both accurate and equitable. As an example, only two of the 133 possible cost allocations to the seven SCVHHS budget units, were previously determined to not be appropriate. Therefore, no patient accounting costs were allocated to either BU 414-Children's Shelter/Custody Health Services, or to BU 725-Valley Health Plan. However, because there are no written policies and procedures explaining the rationale for allocating or not allocating costs to the seven user budget units, each of the remaining 131 cost allocations must be separately analyzed to establish the validity of the current allocations, such as protective services security costs, hospital communications, and grants accounting for BU 414-Children's Shelter/Custody Health Services, and BU 725-Valley Health Plan.

An actual case in point pertains to the methodology used to allocate the \$35 million of Cost Center 6837-Information Services costs. Prior to this fiscal year, BU 725-Valley Health Plan (VHP) was charged for some of its costs based on the percent of its total expenditure budget to the total expenditure budget of all of the SCVHHS functions. In FY 2009-10, its \$132 million budget included about \$114 million for purchased medical services for its members, leaving only about \$18 million of administrative and support staff costs on which VHP was allocated \$4.3 million of SCVHHS costs for its corporate charge. This fiscal year, the VHP manager questioned this charge, which he believed was excessive. Since the largest portion of the \$4.3 million charge was \$3.0 million for Cost Center 6837-Information Services costs, the budget manager questioned Information Services staff to determine if they were actually incurring \$3.0 million of costs for the information services they provided to VHP.

However, the Information Services cost center does not maintain detailed cost accounting records for all of the services provided to each of its customers and could not substantiate the \$3.0 million annual charge or an amount reasonably close to that number. Consequently, the SCVHHS budget manager modified the current corporate charge allocations reducing the charge to Budget Unit 725 by \$2.4 million and increasing the Information services charge to the other six SCVHHS functions by the same amount. Given the large amount of administrative and support services costs that are annually allocated through the corporate charge and the various funding sources that are affected by these costs, SCVHHS should develop detailed cost accounting records to support its information services and other central service costs where the level of effort to do so is reasonable in relation to the costs of the services provided (see Attachment 1.1). In addition, SCVHHS Cost Center 6872-Enterprise Fund Finance staff should prepare a comprehensive written policy and procedure pertaining to the annual preparation, justification and documentation of the SCVHHS corporate charge. Due to the extent of changes that may result from a comprehensive revision of the SCVHHS corporate charge, the financial impact of shifting costs between the seven SCVHHS budget units is unknown.

CONCLUSION

SCVHHS currently allocates administrative and support service costs among seven budget units that provide a variety of health and hospital services. However, the allocation process does not comply with State and federal OMB A-87 cost allocation standards, is based on budget rather than actual costs, excludes County-wide overhead costs, and lacks written policies and procedures.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 1.1 Annually at the end of each fiscal year adjust corporate charges to SCVHHS budget units based on actual expenditures. (Priority 1)
- 1.2 Include County-wide overhead costs in the cost pool of administrative and support service costs that are annually allocated as the SCVHHS corporate charge. (Priority 1)
- 1.3 Perform a comprehensive review and analysis of the SCVHHS corporate charge and prepare a written policy and procedure pertaining to the annual preparation, justification and documentation of the SCVHHS corporate charge. (Priority 2)
- 1.4 Develop and implement detailed cost accounting records to support its information services and other central service costs where the level of effort to do so is reasonable in relation to the costs of the services provided. (Priority 2)

SAVINGS, BENEFITS AND COSTS

The implementation of these recommendations would substantially improve the accuracy and appropriateness of the administrative and support service costs allocated to SCVHHS budget units. In addition, the process for the development and implementation of the corporate charge would be formalized, strengthened and brought into compliance with State and federal OMB A-87 cost allocation standards.

Handbook of Cost Plan Procedures for California Counties



JOHN CHIANG

California State Controller

accumulating, and distributing allowable costs to operating departments, including grantee departments, together with the allocation methods used.

**1250: Cost Summary/
Exhibit and
Accounting System
Interface**

When the cost plan format is utilized for identification of indirect and central support service costs associated with the various operating and grantee departments, the resulting product will be a cost summary or cost exhibit. These two terms are synonymous and may be used interchangeably. A cost exhibit or cost summary identifies the unbilled portion of indirect costs to the departments that will receive services from the departments whose costs are included in the plan in the fiscal year that the plan addresses. Adjustments, corrections, and other cost considerations that affect prior years can also be included on this exhibit.

The accounting system of the agency preparing a cost plan must be able to track the actual cost information that occurs during each fiscal year. This is necessary so that the actual costs can be determined at a later date and any required adjustments made to cost plan expenditure allocations in subsequent cost plans.

If a local government utilizes a formal cost accounting system, the direct costs accounted for by that system should be reported in a manner that reflects the cost principles set forth in OMB A-87, ASMB C-10, and this handbook. This procedure is intended to ensure that the resulting identification of costs to all operating departments will be in accordance with federal cost reimbursement principles.

**1260: Use of Cost
Summary/Exhibit**

Any claims made by a grantee department for indirect costs should be based upon the cost summary/exhibit. The cost summary/exhibit provides a basis for charging users of county central support services, including services to outside agencies-for example, auditing services provided by a county auditor controller to a special district. Claims for reimbursement must include a review of direct charges to the grantee departments in the county's accounting system in order to avoid a situation in which a cost is considered as an indirect cost allocated in the cost plan as well as a direct cost.

1370: Changes to Formally Approved Cost Plans

Changes to the costs presented in formally approved cost plans will be allowed only when a subsequent examination or audit reveals inequities or factual errors and the State Controller determines the amounts involved to be material.

Approved costs are considered to be closed. No changes will be allowed unless a compelling reason exists either in law, statute, or regulation that requires the reopening of negotiations.

1375: Provisional Approvals

Only the State Controller's representative has authority to sign a provisional agreement. A provisional approval is subject to later revision pending a subsequent review.

A provisional approval is identical in all other respects to a formal approval. It is distributed to, and must be used by, all federal and state grantor agencies in reimbursing the county for the indirect costs associated with its federally funded grants and contracts.

1380: Approval Methodology

All proposed countywide cost allocation plans will be reviewed, negotiated, and approved by the State Controller's Office on a timely basis. Plans will be reviewed within six months of receipt. The State Controller's Office will notify the county of any required additional information and/or documentation needed or if changes are required in the county's prepared cost plan. After an agreement with the county has been reached, the agreement will be accepted and used by all county agencies unless prohibited or limited by statute. If a federal funding agency believes that special operating factors affecting its awards necessitate special consideration, the funding agency must, prior to the time the cost plans are negotiated, notify the State Controller.

1385: Fixed (Estimate with Carry-Forward)

Allocated central service costs are usually negotiated and approved for the following fiscal year on a "fixed (estimated) with carry-forward" basis. Under this procedure, the fixed (estimated) amounts for the future year covered by the agreement are not subject to adjustments for that year. However, when the actual costs of the year involved become known, the differences between the fixed (estimated) amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed (estimated) amounts established for a later year. This "carry-forward" procedure applies to all central support services whose costs were fixed (estimated) in the approved cost plan. A carry-forward adjustment is not permitted for a central support or an operating activity that was not included in the approved cost plan or for unallowable costs. When unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods:

The best method available for identifying costs to the beneficiaries of the costs incurred is through a formal cost accounting system. If such a system does not exist, the only acceptable alternative is a cost allocation plan. When a cost allocation plan is employed to apportion indirect costs, it is still important for the county to track the actual costs incurred during each fiscal year. This is necessary in order for all estimated indirect costs claimed by grant programs through the cost plan to be adjusted to actual costs by carry-forward adjustments in future accounting periods (see Section 2140, items 7 and 8 above).

2160: Narratives

Narratives are an integral part of the basis upon which the State Controller's Office approves cost plans. After a county has identified the overhead and central support service programs that will be included in its cost plan, it must prepare an extensive narrative concerning each item. These narratives facilitate in-depth reviews of plans and enable the Controller's Office to respond to questions from grantor agencies and cost plan auditors. The importance of accurate and complete narratives in the cost plan cannot be over-emphasized.

The narrative for each central support service must include:

1. A description of the cost centers or functions within the service department and a concise summary of the extent to which each of these cost pools and/or functions provide services to other county departments;
2. A description of the types of costs that are considered to be allowable, an explanation of why these costs are allowable, and a discussion of the method or methods used to separate allowable costs from those costs considered to be unallowable;
3. A description of the allocation methods used to distribute costs in each cost pool and the source of the data used to distribute each cost pool's assigned expenditures; and
4. A description of the methodology used to identify any amounts billed to the user departments. The narrative for each schedule must include a specific identification of each revenue, interfund, and intrafund transfer received by the central support department whose expenditures are being allocated. If any of these resource inflows has not been used to reduce expenditure allocations, a complete explanation must be provided.

The narrative for each central support Internal Service Fund (ISF) must include:

1. A complete, concise description of the ISF, including the types of costs incurred and the type and extent of all services provided;

Section 2. Hospital Charges and Reimbursements

Background

- Santa Clara Valley Medical Center's (SCVMC) operating loss more than quadrupled between FY 2000-01 and FY 2009-10. Based on the County's audited financial statements, the hospital's operating loss increased nearly every year for the past 10 years and totaled \$165.7 million in FY 2009-10. According to hospital financial data reported to the State for FY 2008-09, most public hospitals in the State's largest counties lost tens of millions of dollars or more.

Problem

- A comparison of charges for common inpatient and outpatient procedures provides evidence that SCVMC has some of the lowest charges in the County, as well as among neighboring counties. According to management, the hospital's charges are based initially on a calculation of Medicare's Relative Value Unit (RVU) factors, which weight the value of work for each procedure, and mark-up factors, which capture additional costs. This calculation is considered along with the Medicare and Medi-Cal fee schedules and rates charged by other local hospitals. However, since management did not provide any policies, procedures or work papers documenting the methodology used to develop charges, audit staff could not verify whether charges fully recover costs. Similarly, reimbursement rates with commercial insurers are negotiated based on the Medicare and Medi-Cal fee schedules and a market analysis. While SCVHHS analyzes health plan costs, charges and reimbursements, this information is not reported to the Board of Supervisors.

Adverse Effect

- Although most of the hospital's patients are government-sponsored or unsponsored, the current methodology used to determine charges likely contributes to the hospital's losses. In addition, without information on the net revenues generated from contracting with commercial insurers, the Board is unable to determine if the County should continue to contract with commercial insurers.

Recommendations

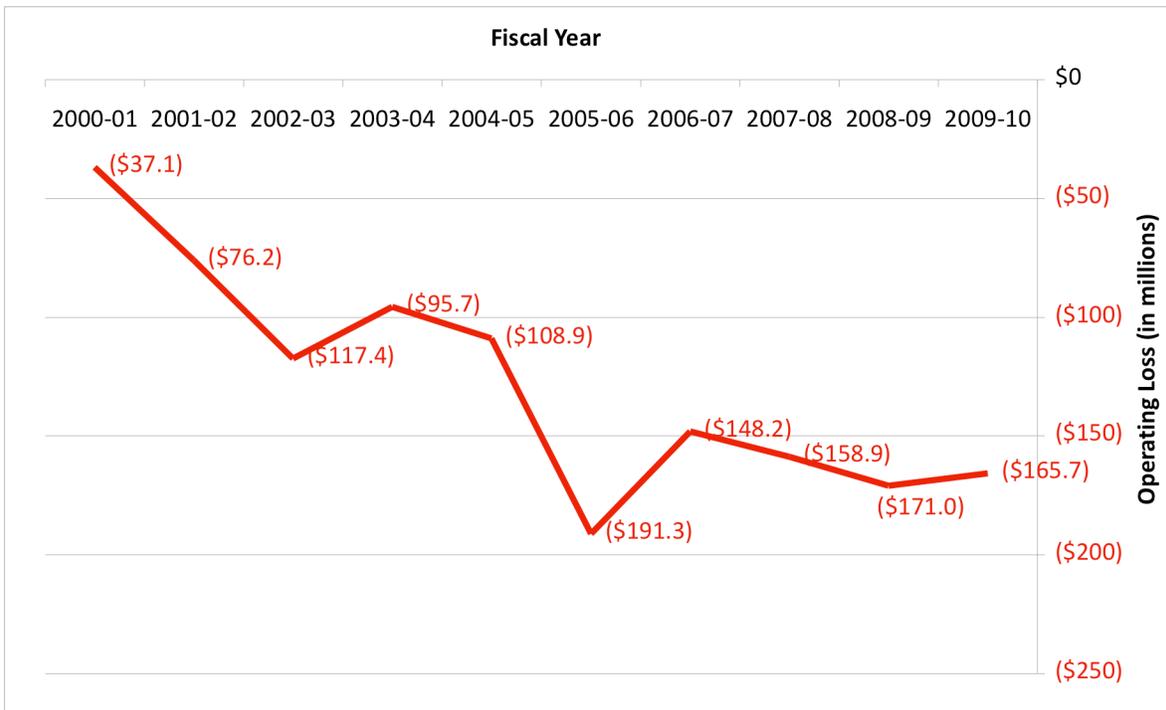
- Management should verify that policies and procedures to set SCVMC's charges are based on proper cost accounting methodologies, ensure that work papers document the rate setting process and calculations, and report on proposed charges to the Controller-Treasurer for evaluation and to the Board of Supervisors for approval. Furthermore, a comprehensive report on contracting activity and aggregate health plan costs, charges and reimbursements should be developed and provided annually to the Board. Implementing these recommendations could result in significant additional ongoing revenue and reduced operating losses. Collectively, these recommendations would enhance the County's ability to establish service levels consistent with financial resources.

Santa Clara Valley Medical Center’s Operating Loss

Between FY 2000-01 and FY 2009-10, Santa Clara Valley Medical Center (SCVMC) lost a total of \$1.3 billion based on operating revenues and expenses reported in the County’s audited financial statements. The hospital’s operating loss more than quadrupled over the 10-year period and totaled \$165.7 million in FY 2009-10. Including non-operating revenues and expenses and excluding allocated taxes, the hospital lost \$173.6 million in FY 2009-10. In nearly every year, with the exception of FY 2003-04, FY 2006-07 and most recently FY 2009-10, the hospital’s operating loss increased, as shown in the chart below.

Chart 2.1

Santa Clara Valley Medical Center Change in Operating Loss FY 2000-01 to FY 2009-10



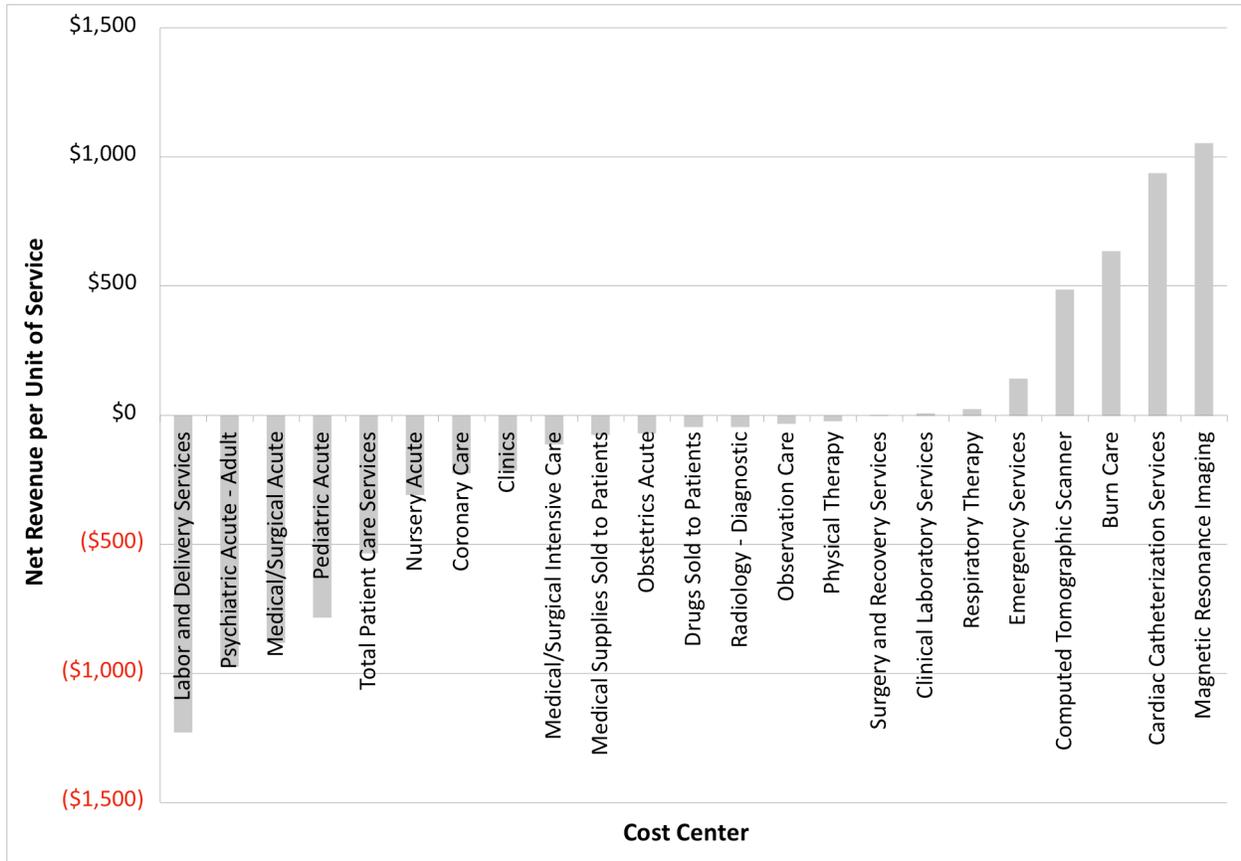
Source: County of Santa Clara, Comprehensive Annual Financial Reports

Annually, SCVMC reports financial data to the Office of Statewide Health Planning and Development (OSHPD), which produces a Hospital Summary Individual Disclosure Report that is published online. The report for FY 2008-09 shows the hospital’s net revenue per unit of service for each revenue producing cost center. As shown in Chart 2.2 on the next page, 15 of 23 cost centers produced a loss in FY 2008-09. The cost center

with the largest loss was Labor and Delivery Services, followed by Psychiatric Acute-Adults and Medical/Surgical Acute.

Chart 2.2

**Santa Clara Valley Medical Center
Net Revenue per Unit of Service
FY 2008-09**



Source: Office of Statewide Health Planning and Development, Hospital Summary Individual Disclosure Report

According to SCVHHS, nearly all patients who deliver at SCVMC are covered by Medi-Cal, which pays one flat rate. In general, Medi-Cal patients comprise the majority of SCVMC’s patient days; in FY 2008-09, the percentage was 52 percent based on OSHPD’s Hospital Summary Individual Disclosure Report. In comparison, Medicare patients comprised approximately 17 percent of patient days, while patients covered by third-party payers (i.e., commercial insurers) comprised approximately 14 percent of patient days. The remaining 17 percent of patient days consisted of indigent patients. As a result, the far majority of the hospital’s patients are government-sponsored or unsponsored.

Audit staff also examined summary net revenue data for other public hospitals. Based on OSHPD's Hospital Summary Individual Disclosure Report, most public hospitals in the State's largest counties ended FY 2008-09 with an operating loss amounting to tens of millions of dollars or more. Two exceptions are Arrowhead Regional Medical Center in the County of San Bernardino and Riverside County Regional Medical Center, the latter of which appears to have a larger percentage of patients covered by third-party payers. SCVHHS also noted that hospitals report revenues and subsidies differently to OSHPD, making it difficult to compare net revenues.

Comparison of Charges

Inpatient Procedures

OSHPD also makes available charge data that hospitals are required to report every year. On its website, OSHPD provides a tool to compare common surgeries and charges for scheduled elective inpatient procedures by county, excluding charges for physician services. The Kaiser Foundation and Shriners are the only hospitals that do not report this information to OSHPD. Because the cost center for Labor and Delivery Services produced the greatest loss per unit of service for SCVMC in FY 2008-09, audit staff used this tool to analyze the average charge for assisted vaginal deliveries and c-section deliveries among public and private hospitals in the County of Santa Clara, as well as neighboring counties. Based on this data, audit staff found that the median charge for an assisted vaginal delivery at SCVMC amounted to \$15,734 in 2009, or 29 percent below the County average of \$22,026. For a c-section delivery, the median charge at SCVMC amounted to \$19,319 in 2009, or 41 percent below the County average of \$32,560. In fact, SCVMC had the lowest median charge of any hospital in the County for both types of deliveries, as shown in Attachment 2.1.

SCVMC's median charge for deliveries in 2009 also fell short of public and private hospitals in neighboring counties in the San Francisco Bay Area. Audit staff looked at the median charge for both types of deliveries in the counties of Alameda, Contra Costa, San Francisco, San Mateo and Santa Cruz. Only Santa Cruz had a lower median charge, and it was only lower for assisted vaginal delivery. The median charge for assisted vaginal delivery in the other neighboring counties ranged between 21 percent and 70 percent higher (Attachment 2.2). For a c-section delivery, the median charge of the neighboring counties, including Santa Cruz, ranged between 45 percent and 126 percent higher (Attachment 2.3). Among public hospitals only, SCVMC's average charge for an assisted vaginal delivery exceeded those in the counties of Alameda, Contra Costa and San Francisco. However, SCVMC's average charge for a c-section delivery was below two of the three public hospitals in these jurisdictions; only San Francisco General Hospital had a lower charge for c-section delivery.

Similarly, SCVMC had the lowest median charge for other types of scheduled elective inpatient procedures, including four heart and circulatory procedures (Attachment 2.4) and two skeletal procedures (Attachment 2.5), examined as part of this audit.

Outpatient Procedures

As another means of comparing charges, OSHPD developed a form to assist hospitals in collecting and submitting their average charge for 25 common outpatient procedures, as required by AB 1045 (Chapter 532, Statutes of 2005). As stated on the form, "Use of the OSHPD form is voluntary, but highly encouraged, as it allows hospitals to report and the public to compare uniform information regarding common outpatient procedures." While hospitals can select which charges they report on the form, they must report a minimum of 25. Audit staff downloaded and reviewed these forms for a sample of local hospitals in the County of Santa Clara. Our sample consisted of El Camino Hospital, Good Samaritan Hospital, Kaiser Foundation Hospital, Stanford Hospital and Santa Clara Valley Medical Center and focused on the following four charges effective as of June 1, 2010:

- Level 3 emergency room visit, which is moderate severity (CPT Code 99283);
- 15 minute outpatient visit for an established patient (CPT Code 99213);
- Automated complete blood count (CPT Code 85027); and
- Therapeutic exercise physical therapy (CPT Code 97110).¹

At least four of the five hospitals, including SCVMC, reported charges for each of these procedures. As shown in Attachment 2.6, while SCVMC's average charge for some procedures is higher than Good Samaritan Hospital and Kaiser Foundation Hospital, every charge falls significantly short of El Camino Hospital and Stanford Hospital and Clinics, the latter of which SCVMC most compares itself to because of the type of services offered and number of patients served. As a result, SCVMC's charges are lower than the average charge of all five hospitals. This difference is least for a level 3 emergency room visit - at 4 percent less than the average - and greatest for an automated complete blood count - at 61 percent less than the average.

The preceding comparison of inpatient and outpatient charges provides evidence that SCVMC has some of the lowest charges in the County. In all likelihood, many of the hospital's charges could be raised to fully recover costs (both direct and indirect), so that they are more comparable to other local hospitals.

Rate Setting Practices and Requirements

Santa Clara Valley Health and Hospital System (SCVHHS) staff develop the hospital's charges and reported that they have a formula for setting charges based on Medicare's

¹ Current Procedural Terminology (CPT) codes are numbers assigned to every task and service a medical practitioner may provide to a patient including medical, surgical and diagnostic services.

Relative Value Unit (RVU) factors², which weight the value of work for each procedure, and mark-up factors, which capture additional costs. In the end, they base their charges on this calculation, the Medicare and Medi-Cal fee schedules, and the charges of other local hospitals. They make sure charges are set to fully recover Medicare and Medi-Cal reimbursements. They also aim for the charges to be at the mid-point of what other local hospitals are charging. Considering that many of the hospital's inpatient and outpatient charges fall short of other local hospitals' average charge, the Medicare and Medi-Cal fee schedules appear to be given greater weight. While SCVHHS has a formula that is used to set charges and files that document charge calculations based on RVUs, they did not provide any policies, procedures or work papers documenting their methodology. As a result, audit staff could not verify whether charges fully recover costs.

Room Rates and Other Charges

According to the Chief Financial Officer, in the mid-1990s, some charges were set below the Medicare and Medi-Cal fee schedules. These charges were subsequently raised, resulting in big increases in room rates and charges for other services (mostly on the inpatient side). A few years later, they also created separate charges for physician and facility fees. The facility charge, such as the room rate, is supposed to include the cost of supplies whose purchase price is less than \$10. However, as discussed in Section 4, a cost study has never been performed to determine whether the facility charge fully captures the cost of these supplies. Similarly, management and staff did not provide any details on the basis for the formula used for determining the charge associated with supplies costing more than \$10. The formula was in place when current employees began working at SCVHHS more than 10 years ago and has not been revised. Based on the hospital's operating losses, it is likely that some charges do not fully recover costs.

According to transmittals that went before the Board for at least the past five years, room rates have increased by 10 percent each year. The transmittals justify the increase based on an increase in routine inpatient costs, and note, "Even with the proposed increase, the charges at SCVMC remain at or below average for comparable hospitals." Between FY 2008-09 and FY 2009-10, this increase was noted as ranging between 9 percent and 10 percent. However, audit staff calculated an approximate increase in operating costs across the hospital of 11 percent for FY 2009-10 based on Period 16 financial data from the County's accounting system, SAP, and audited financial statements. Furthermore, the hospital's operating costs increased by more than 10 percent in four of the past nine years, including FY 2001-02, FY 2002-03, FY 2007-08 and most recently FY 2009-10.

² RVUs weight the value of work for each Current Procedural Terminology (CPT) code. SCVHHS downloads files with the RVUs and multiplies these by a conversion factor (CF) and a Geographical Practice Cost Index (GPCI) to create the compensation level for a particular service.

County Ordinance Code, Policies and Procedures

Santa Clara County Ordinance Code Section A18-5 requires that inpatient hospital room rate charges be based on SCVMC's operating costs. It also requires that rates for other SCVHHS services be established "...in accordance with statutory requirements, Board of Supervisors' policy and costs and/or rates charged by community hospitals." During the FY 2006-07 budget process, the Board directed the Controller-Treasurer Department to coordinate and oversee the review, control and monitoring of County fees and charges. To accomplish this, the Department established the Cost Management Unit and issued Policy and Procedure No. 17.500.001 on establishing charges and fees pursuant to Federal Circular OMB A-87 and allied circulars, and Government Code Sections 51350 and 54985 (Attachment 2.7). This policy states the following:

County policy for charging the costs of County services to outside agencies, businesses, and individuals, and other County funds, is for full cost recovery whenever possible. This necessitates that departments' billings – fees or charges – include appropriate County and department indirect costs.

Based on this policy, departments are required to prepare and review cost reports and charges to be levied or revised, and forward annual reports (with appropriate documentation) for the Controller-Treasurer's review. Any revised or new fees must be forwarded at least 45 days before submission to the Board. The Cost Management Unit's responsibilities include:

- Assisting departments in establishing written procedures for reviewing and updating fees and charges;
- Reviewing fee and charge calculations to ensure full cost recovery in compliance with laws and regulations;
- Reviewing new and/or proposed fee changes requested by departments before submission to the Board;
- Assisting departments in revising cost-based fees and charges that off-set the County's costs; and
- Submitting an annual "Master Fee Schedule" for the Board's informational review.

SCVHHS Policies and Procedures

SCVHHS asked that SCVMC patient fees be exempt from the Controller-Treasurer's review. The Controller-Treasurer Department agreed that patient fees, defined as "charges for medical treatment or services provided to patients as part of the hospital's operation that result in reimbursements from Medicare, Medi-Cal, private insurance companies and unsponsored patients", do not need to follow the procedures established by the County, but all other fees and charges must follow this procedure.

As a result, SCVMC hospital, clinic and patient fees have eluded the critical financial scrutiny of the Controller-Treasurer's review, which certainly would have identified and reported the numerous fees and charges that fail to recover costs and contribute annually to increasing losses at SCVMC. To this day, Controller-Treasurer staff believe that SCVHHS is setting SCVMC patient fees based on the full cost of each service in order to obtain full and appropriate reimbursements from commercial insurers. It is true that all patients are charged one rate, regardless of ability to pay, and each government and third-party payer reimburses the hospital based on their negotiated rates. However, as mentioned previously, SCVHHS did not provide any policies, procedures or work papers documenting the methodology used to develop charges.

Based on these findings, SCVHHS should verify that policies and procedures to set SCVMC's room rates and other charges for services are based on proper cost accounting methodologies to fully recover costs. This should be done in consultation with members of the Controller-Treasurer's Cost Management Unit. SCVHHS should also verify that work papers document SCVMC's rate setting process and calculations, including summaries of actual costs and proposed charges and comparisons of charges to other local hospitals. In addition, SCVMC patient fees should be included in the annual review of fees and charges to ensure that the methodologies used to calculate these rates are independently verified each year by Controller-Treasurer staff, who specialize in the analysis and calculation of County fees and charges. The Controller-Treasurer or SCVHHS should then submit this information to the Board of Supervisors for its review and approval annually, prior to the effective date of such charges. Implementing these recommendations could result in significant additional ongoing revenue for SCVMC, though increasing charges to fully recover costs could impact certain populations, particularly Medicare patients, patients with commercial insurance and unsponsored patients, who would receive higher medical bills more consistent with prevailing charges by other hospitals in the County.

Reimbursements from Commercial Insurers

Santa Clara County Ordinance Code Section A18-5 allows the Executive Director to "...enter into agreements with purchasers of health care for patient services in accordance with policies established by resolution of the Board of Supervisors." Since March 1998, the Board of Supervisors has approved and adopted a resolution to delegate the Chief Executive Officer (currently the Deputy County Executive/Acting Director) of SCVHHS the authority to execute agreements in specific areas consistent with the Policies for Agreements for Pricing, Services and Outreach for SCVMC and Valley Health Plan (VHP), which outline some of the factors used for evaluating agreements with third-party payers (Attachment 2.8). These policies include the following criteria regarding the financial impact of contracts:

When SCVMC is the provider of services, the financial arrangement must meet or exceed SCVMC's incremental cost for the types of services involved and covered by the contract (i.e., inpatient, outpatient, routine, specialty/tertiary, trauma, etc.)

During FY 2009-10, SCVHHS negotiated and entered into 14 agreements and amendments on behalf of SCVMC and VHP with commercial insurers. A new agreement with Kaiser included increased rates for the Rehabilitation Center and specific rates to coordinate burn care for Kaiser members who are Santa Clara County residents. While SCVMC also extended its agreement with United Healthcare/Pacificare in FY 2009-10, SCVMC has been in the mid-contract term for most of its Health Maintenance Organization (HMO) agreements. SCVMC also contracts with a variety of Preferred Provider Organizations (PPO), which have been active in trying to gain market share from the larger HMO insurers.

In negotiating reimbursement rates for these contracts, SCVHHS staff stated that they look at the Medicare and Medi-Cal fee schedules and consider reasonable rates prevailing in the community. The Acting Director of Planning, Contracting and Business Development commented that they are negotiating around a “narrow band” and try to carve out a higher level of reimbursement, such as payments based on a per diem basis rather than a diagnosis-related group basis, when they can. In addition, pursuant to the policies that have been instituted, staff prepare a bi-annual report on contracting activity for the Board of Supervisors. These reports provide general information on the number and type of contracts that were completed, as well as utilization trends, during a 12-month period. However, they do not provide any information on the net revenues generated from contracting with commercial insurers. Staff separately analyze this information but do not report on it to the Board. A comprehensive report on contracting activity and aggregate health plan costs, charges and reimbursements should be developed and provided annually to the Board. Having such information would assist the Board in determining whether SCVHHS is being fully reimbursed for its incremental costs, as required by the contract delegation of authority granted by the Board, and if the County should continue to contract with commercial insurers.

CONCLUSION

SCVMC’s operating losses more than quadrupled between FY 2000-01 and FY 2008-09 based on the County’s audited financial statements. A comparison of charges for common inpatient and outpatient procedures provides evidence that SCVMC has some of the lowest charges in the County, as well as among neighboring counties. However, SCVHHS did not provide any policies, procedures or work papers documenting the methodology used to develop charges. Management also does not report on the net revenues generated from contracting with commercial insurers. To address these problems, SCVHHS should verify that policies and procedures are based on proper cost accounting methodologies, ensure that work papers document the hospital’s rate setting process and calculations, and report annually on contracting activity and aggregate health plan costs, charges and reimbursements to the Board of Supervisors.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 2.1 Verify that policies and procedures to set SCVMC's charges are based on proper cost accounting methodologies. Charges should fully recover costs unless specifically set at lower levels by the Board of Supervisors after considering the amount of operating loss that will result from such rates. This should be done in consultation with members of the Controller-Treasurer's Cost Management Unit. (Priority 1)
- 2.2 Ensure that work papers document SCVMC's annual rate setting process and calculations, including summaries of actual costs, proposed charges and comparisons of charges to other local hospitals. This information should be submitted to the Controller-Treasurer for evaluation and Board of Supervisors for its review and approval annually, prior to the effective date of such charges. (Priority 1)
- 2.3 Develop a comprehensive report on contracting activity and aggregate health plan costs, charges and reimbursements and annually provide this information to the Board of Supervisors. (Priority 1)

The Controller-Treasurer Department should:

- 2.4 Include SCVMC patient fees in the annual review of fees and charges and independently verify the methodologies used to calculate SCVMC proposed fees and charges for the ensuing fiscal year. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementing the recommendations above could result in additional ongoing revenue for SCVMC, resulting in a reduction of annual operating losses. However, increasing charges to fully recover costs could impact certain populations, particularly Medicare patients, patients with commercial insurance and unsponsored patients. Finally, establishing a comprehensive report on contracting activity and aggregate health plan costs, charges and reimbursements would assist the Board in determining if the County should continue to contract with commercial insurers. Collectively, these recommendations would enhance the County's ability to establish service levels consistent with financial resources.

**Comparison of Labor and Delivery Charges at
Hospitals in the County of Santa Clara
Calendar Year 2009**

Hospital	Assisted Vaginal Delivery			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
Lucile Salter Packard Children's Hospital at Stanford	514	2.0	\$27,940	27%
St. Louise Regional Hospital	62	2.0	\$26,377	20%
Regional Medical of San Jose	36	2.0	\$24,646	12%
O'Conner Hospital San Jose	540	2.0	\$24,142	10%
El Camino Hospital	1,364	2.0	\$20,262	-8%
El Camino Hospital Los Gatos	30	2.0	\$20,102	-9%
Good Samaritan Hospital San Jose	1,780	2.0	\$17,008	-23%
Santa Clara Valley Medical Center	353	3.0	\$15,734	-29%
County Average	585	2.1	\$22,026	

Hospital	C-Section Delivery			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
Lucile Salter Packard Children's Hospital at Stanford	734	4.0	\$45,553	40%
O'Conner Hospital San Jose	456	3.0	\$36,810	13%
St. Louise Regional Hospital	89	3.0	\$35,447	9%
El Camino Hospital	1,117	4.0	\$34,337	5%
El Camino Hospital Los Gatos	39	4.0	\$32,193	-1%
Good Samaritan Hospital San Jose	1,318	4.0	\$28,424	-13%
Regional Medical of San Jose	41	3.0	\$28,394	-13%
Santa Clara Valley Medical Center	457	3.0	\$19,319	-41%
County Average	531	3.5	\$32,560	

Source: Office of Statewide Health Planning and Development, Common Surgeries and Charges Comparison

**Comparison of Assisted Vaginal Delivery Charges in the
County of Santa Clara and Neighboring Counties
Calendar Year 2009**

Hospital in the County of Santa Clara	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
LUCILE SALTER PACKARD CHILDREN'S HOSP. AT STANFORD	514	2.0	\$27,940	27%
ST. LOUISE REGIONAL HOSPITAL	62	2.0	\$26,377	20%
REGIONAL MEDICAL OF SAN JOSE	36	2.0	\$24,646	12%
O'CONNOR HOSPITAL - SAN JOSE	540	2.0	\$24,142	10%
EL CAMINO HOSPITAL	1,364	2.0	\$20,262	-8%
EL CAMINO HOSPITAL LOS GATOS	30	2.0	\$20,102	-9%
GOOD SAMARITAN HOSPITAL-SAN JOSE	1,780	2.0	\$17,008	-23%
SANTA CLARA VALLEY MEDICAL CENTER	353	3.0	\$15,734	-29%
County Average	585	2.1	\$22,026	

Hospital in the County of Santa Cruz	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
WATSONVILLE COMMUNITY HOSPITAL	87	2.0	\$24,413	58%
DOMINICAN HOSPITAL-SANTA CRUZ/SOQUEL	236	2.0	\$14,894	-4%
SUTTER MATERNITY AND SURGERY CENTER OF SANTA CRUZ	567	2.0	\$7,127	-54%
County Average	297	2.0	\$15,478	

Hospital in the County of San Mateo	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under Average
SEQUOIA HOSPITAL	16	2.0	\$28,370	19%
SETON MEDICAL CENTER	438	2.0	\$27,307	14%
PENINSULA MEDICAL CENTER	1,055	2.0	\$15,990	-33%
County Average	503	2.0	\$23,889	

Hospital in the County of Alameda	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
WASHINGTON HOSPITAL - FREMONT	1,395	2.0	\$24,329	26%
VALLEYCARE MEDICAL CENTER	153	2.0	\$23,874	23%
EDEN MEDICAL CENTER	166	2.0	\$20,846	8%
ST. ROSE HOSPITAL	85	2.0	\$16,291	-16%
ALAMEDA CO MED CTR - HIGHLAND CAMPUS	17	2.0	\$11,556	-40%
County Average	363	2.0	\$19,379	

Hospital in the County of Contra Costa	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
SAN RAMON REGIONAL MEDICAL CENTER	3	2.0	\$27,217	43%
JOHN MUIR MEDICAL CENTER-WALNUT CREEK CAMPUS	35	2.0	\$21,545	13%
SUTTER DELTA MEDICAL CENTER	455	2.0	\$16,358	-14%
CONTRA COSTA REGIONAL MEDICAL CENTER	50	3.0	\$11,132	-42%
County Average	136	2.3	\$19,063	

Hospital in the City and County of San Francisco	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
CALIFORNIA PACIFIC MEDICAL CENTER - ST. LUKE'S CAMPUS	80	3.0	\$41,506	55%
CALIFORNIA PACIFIC MED CTR-PACIFIC CAMPUS	98	3.0	\$28,747	7%
UCSF MEDICAL CENTER	9	2.0	\$22,523	-16%
SAN FRANCISCO GENERAL HOSPITAL	80	3.0	\$14,242	-47%
County Average	67	2.8	\$26,755	

Source: Office of Statewide Health Planning and Development, Common Surgeries and Charges Comparison

**Comparison of C-Section Delivery Charges in the
County of Santa Clara and Neighboring Counties
Calendar Year 2009**

Hospital in the County of Santa Clara	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
LUCILE SALTER PACKARD CHILDREN'S HOSP. AT STANFORD	734	4.0	\$45,553	40%
O'CONNOR HOSPITAL - SAN JOSE	456	3.0	\$36,810	13%
ST. LOUISE REGIONAL HOSPITAL	89	3.0	\$35,447	9%
EL CAMINO HOSPITAL	1,117	4.0	\$34,337	5%
EL CAMINO HOSPITAL LOS GATOS	39	4.0	\$32,193	-1%
GOOD SAMARITAN HOSPITAL-SAN JOSE	1,318	4.0	\$28,424	-13%
REGIONAL MEDICAL OF SAN JOSE	41	3.0	\$28,394	-13%
SANTA CLARA VALLEY MEDICAL CENTER	457	3.0	\$19,319	-41%
County Average	531	3.5	\$32,560	

Hospital in the County of Santa Cruz	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
WATSONVILLE COMMUNITY HOSPITAL	123	3.0	\$33,961	21%
DOMINICAN HOSPITAL-SANTA CRUZ/SOQUEL	132	4.0	\$30,461	9%
SUTTER MATERNITY AND SURGERY CENTER OF SANTA CRUZ	239	4.0	\$19,655	-30%
County Average	165	3.7	\$28,026	

Hospital in the County of San Mateo	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
SETON MEDICAL CENTER	203	4.0	\$47,823	10%
PENINSULA MEDICAL CENTER	546	4.0	\$43,090	-1%
SEQUOIA HOSPITAL	47	4.0	\$39,847	-9%
County Average	265	4.0	\$43,587	

Hospital in the County of Alameda	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
ALTA BATES SUMMIT MED CTR-ALTA BATES CAMPUS	2	4.5	\$59,480	65%
WASHINGTON HOSPITAL - FREMONT	700	4.0	\$45,780	27%
VALLEYCARE MEDICAL CENTER	296	4.0	\$37,625	5%
EDEN MEDICAL CENTER	192	3.0	\$25,591	-29%
ST. ROSE HOSPITAL	189	3.0	\$25,012	-30%
ALAMEDA CO MED CTR - HIGHLAND CAMPUS	57	3.0	\$22,395	-38%
County Average	239	3.6	\$35,981	

Hospital in the County of Contra Costa	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
JOHN MUIR MEDICAL CENTER-WALNUT CREEK CAMPUS	47	4.0	\$53,794	51%
SUTTER DELTA MEDICAL CENTER	253	3.0	\$33,915	-5%
SAN RAMON REGIONAL MEDICAL CENTER	16	4.0	\$31,271	-12%
CONTRA COSTA REGIONAL MEDICAL CENTER	168	3.0	\$23,808	-33%
County Average	121	3.5	\$35,697	0%

Hospital in the City and County of San Francisco	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
UCSF MEDICAL CENTER	7	4.0	\$37,206	22%
CALIFORNIA PACIFIC MED CTR-PACIFIC CAMPUS	432	4.0	\$33,491	10%
CALIFORNIA PACIFIC MEDICAL CENTER - ST. LUKE'S CAMPUS	85	4.0	\$32,701	8%
SAN FRANCISCO GENERAL HOSPITAL	96	4.0	\$18,202	-40%
County Average	155	4.0	\$30,400	

Source: Office of Statewide Health Planning and Development, Common Surgeries and Charges Comparison

**Comparison of Heart and Circulatory Procedure Charges at
Hospitals in the County of Santa Clara
Calendar Year 2009**

Hospital	Coronary Artery Bypass Graft			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
REGIONAL MEDICAL OF SAN JOSE	8	6.0	\$294,789	30%
STANFORD HOSPITAL	35	6.0	\$243,772	8%
GOOD SAMARITAN HOSPITAL-SAN JOSE	36	6.0	\$241,264	7%
O'CONNOR HOSPITAL - SAN JOSE	16	6.5	\$220,932	-2%
EL CAMINO HOSPITAL	37	6.0	\$188,435	-17%
SANTA CLARA VALLEY MEDICAL CENTER	17	7.0	\$169,681	-25%
County Average	25	6.3	\$226,479	

Hospital	Endarterectomy			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
REGIONAL MEDICAL OF SAN JOSE	5	3.0	\$76,731	38%
STANFORD HOSPITAL	64	2.0	\$75,097	35%
O'CONNOR HOSPITAL - SAN JOSE	26	1.0	\$52,675	-5%
GOOD SAMARITAN HOSPITAL-SAN JOSE	25	1.0	\$44,799	-20%
EL CAMINO HOSPITAL	31	1.0	\$44,503	-20%
SANTA CLARA VALLEY MEDICAL CENTER	6	2.0	\$40,108	-28%
County Average	26	1.7	\$55,652	

Hospital	Heart Valve Replacement			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
LUCILE SALTER PACKARD CHILDREN'S HOSP. AT STANFORD	14	6.5	\$363,572	23%
STANFORD HOSPITAL	193	8.0	\$334,951	13%
GOOD SAMARITAN HOSPITAL-SAN JOSE	47	7.0	\$314,674	7%
REGIONAL MEDICAL OF SAN JOSE	1	6.0	\$284,831	-4%
EL CAMINO HOSPITAL	31	8.0	\$266,771	-10%
O'CONNOR HOSPITAL - SAN JOSE	13	7.0	\$254,283	-14%
SANTA CLARA VALLEY MEDICAL CENTER	18	9.0	\$247,858	-16%
County Average	45	7.4	\$295,277	

Hospital	Coronary Angioplasty Non-invasive			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
GOOD SAMARITAN HOSPITAL-SAN JOSE	48	2.0	\$145,414	22%
O'CONNOR HOSPITAL - SAN JOSE	47	1.0	\$141,858	19%
EL CAMINO HOSPITAL	24	1.5	\$130,906	10%
REGIONAL MEDICAL OF SAN JOSE	31	1.0	\$122,132	2%
STANFORD HOSPITAL	69	1.0	\$98,591	-17%
SANTA CLARA VALLEY MEDICAL CENTER	6	2.5	\$76,790	-36%
County Average	38	1.5	\$119,282	

Source: Office of Statewide Health Planning and Development, Common Surgeries and Charges Comparison

**Comparison of Skeletal Procedure Charges at
Hospitals in the County of Santa Clara
Calendar Year 2009**

Hospital*	Total Hip Replacement			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
REGIONAL MEDICAL OF SAN JOSE	12	5.0	\$147,224	35%
GOOD SAMARITAN HOSPITAL-SAN JOSE	183	3.0	\$134,259	23%
EL CAMINO HOSPITAL	168	3.0	\$129,898	19%
STANFORD HOSPITAL	445	3.0	\$112,730	3%
ST. LOUISE REGIONAL HOSPITAL	23	4.0	\$107,094	-2%
O'CONNOR HOSPITAL - SAN JOSE	64	3.0	\$101,886	-7%
EL CAMINO HOSPITAL LOS GATOS	5	3.0	\$72,261	-34%
SANTA CLARA VALLEY MEDICAL CENTER	14	4.0	\$70,243	-36%
County Average	114	3.5	\$109,449	

Hospital*	Total Knee Replacement			
	Number of Discharges	Median Length of Stay (Days)	Median Charge per Stay	% Over or Under County Average
EL CAMINO HOSPITAL	217	3.0	\$134,306	24%
REGIONAL MEDICAL OF SAN JOSE	70	5.0	\$129,849	20%
GOOD SAMARITAN HOSPITAL-SAN JOSE	333	3.0	\$127,369	18%
ST. LOUISE REGIONAL HOSPITAL	54	4.0	\$118,332	10%
STANFORD HOSPITAL	481	3.0	\$113,422	5%
O'CONNOR HOSPITAL - SAN JOSE	149	3.0	\$104,753	-3%
EL CAMINO HOSPITAL LOS GATOS	21	2.0	\$70,799	-34%
SANTA CLARA VALLEY MEDICAL CENTER	41	4.0	\$64,295	-40%
County Average	171	3.4	\$107,891	

* The Lucille Salter Packard Children's Hospital at Stanford was excluded due to the minimal number of discharges and long length of stay.

Source: Office of Statewide Health Planning and Development, Common Surgeries and Charges Comparison

**Comparison of the Average Charge for
Common Outpatient Procedures
Effective as of June 1, 2010**

Hospital	Emergency Room Visit, Level 3 (moderate severity)	
	Average Charge	% Over or Under Hospital Average
Stanford Hospital and Clinics	\$1,751	29%
El Camino Hospital	\$1,574	16%
Santa Clara Valley Medical Center*	\$1,308	-4%
Good Samaritan Hospital	\$1,250	-8%
Kaiser Foundation Hospital	\$900	-34%
Hospital Average	\$1,357	

* VMC's average charge for a level 3 emergency room visit includes a \$421 professional fee and \$887 facility fee.

Hospital	Outpatient Visit, established patient, 15 minutes	
	Average Charge	% Over or Under Hospital Average
Stanford Hospital and Clinics	\$446	46%
Good Samaritan Hospital	\$407	33%
Santa Clara Valley Medical Center	\$202	-34%
Kaiser Foundation Hospital	\$170	-44%
El Camino Hospital	N/a	N/a
Hospital Average	\$306	

Hospital	Complete Blood Count, automated	
	Average Charge	% Over or Under Hospital Average
Good Samaritan Hospital	\$248	88%
Stanford Hospital and Clinics	\$152	15%
Kaiser Foundation Hospital	\$76	-42%
Santa Clara Valley Medical Center	\$51	-61%
El Camino Hospital	N/a	N/a
Hospital Average	\$132	

Hospital	Physical Therapy, Therapeutic Exercise	
	Average Charge	% Over or Under Hospital Average
El Camino Hospital	\$474	102%
Stanford Hospital and Clinics	\$212	-10%
Good Samaritan Hospital	\$135	-43%
Santa Clara Valley Medical Center	\$118	-50%
Kaiser Foundation Hospital	N/a	N/a
Hospital Average	\$235	

Source: Office of Statewide Health Planning and Development, AB 1045
Common Outpatient Procedure Form

**County of Santa Clara
Finance Agency
Controller-Treasurer Department
Policies & Procedures Manual**

PROCEDURE NUMBER: 17.500.001

DATE ISSUED/UPDATED: Jun 20, 2007

SUBJECT: Charges and Fees-Policies

PREPARED BY: Disbursement and Cost Management Division,
Cost Management Unit

APPROVED BY: Controller-Treasurer

POLICY:

County policy for charging the costs of County services to outside agencies, businesses, and individuals, and other County funds, is for full cost recovery whenever possible. This necessitates that departments' billings – fees or charges – include appropriate County and department indirect costs.

REFERENCES:

Federal circular OMB 87 and allied circulars;
Government codes 51350 and 54985 et al;
Accounting Standards and Procedures Manual;
County Ordinance: Division A14 Fees and Charges - Miscellaneous

SCOPE:

This procedure applies to all County departments.

PROCEDURE:

Responsible Party

1.0 Departments

- 1.1. Collect data, records and expense reports for the financial year.
- 1.2. Prepare and review cost reports and charges to be levied/revised
- 1.3. Forward annual reports (with appropriate documentation) for Controller-Treasurer's review.
- 1.4. Forward any revised/new fees proposal to Controller-Treasurer Department at least 45 days before submission to the Board.

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- 1.5. Submit to the approving authority – Controller-Treasurer Department, County Counsel, Office of Budget and Analysis and the Board – if applicable
- 1.6. Implement revised/new fees once approved.

2.0 Cost Management Unit, Controller-Treasurer Department

- 2.1. Control and monitor the annual review of fees and charges – to ensure full cost recovery and compliance to laws and regulation.
- 2.2. Submit the reviewed fees/charges changes to Office of Budget and Analysis and the Board for approval.
- 2.3. Assist departments to establish internal written procedures for fees and charges review and update.
- 2.4. Continuous review of current legal provisions and changes affecting the fee structure.
- 2.5. Maintain close liaison with State agencies and CSAC and other local agencies and inform departments of any new changes
- 2.6. Identify new services, charges and fees when applicable.
- 2.7. Provide guidance and support to County departments on cost accounting and pricing procedures, including full cost analysis, ICRP calculation review, regular review of controlling statutes, agreements and regulations
- 2.8. Provide training and detailed guidance when necessary and appropriate.

PENALTIES (if applicable)

Not applicable.

RELATED TOPICS (if Applicable)

Cost Accounting Procedures and Guidelines prepared by Cost management Unit
Calendar for Fees and Charges Review
Checklist for Annual Review of Fees and Charges

**Policies for Agreements for Pricing, Services and Outreach for
Santa Clara Valley Medical Center (SCVMC) and Valley Health Plan (VHP), both
as part of Santa Clara Valley Health and Hospital System (SCVHHS)**

The Policies for Pricing, Services and Outreach relate to the following types of agreements:

1. SCVMC Patient Agreements and VHP Agreements, including Special Payment and Prompt Payment Agreements

Deputy County Executive/Acting Director of (SCVHHS) or designee and Valley Health Plan Chief Executive Officer or designee will have the authority to enter into inpatient and outpatient service contracts, amendments, and letters of agreement, prompt payment agreements and ad-hoc agreements. Contracts will be negotiated with various purchasers of health care services including insurers, medical groups, third party administrators, medical management organizations, employers, and individual patients for medical care. Such special payment and discount arrangements will include prompt payment discounts, if appropriate. These agreements will help SCVMC and VHP to achieve business objectives, benefit from business opportunities and additional volume, ensure patient and member access to services and will increase revenue.

2. VHP and SCVMC – Provider Agreements

Deputy County Executive/Acting Director of SCVHHS or designee and Chief Executive Officer of VHP or designee will have the authority to enter into contracts, amendments, and memoranda of understanding and letters of agreements for VHP and SCVMC for patients who require health care services both within and outside of SCVHHS. Examples of the public programs or products include but not limited to: the Healthy Families, Healthy Kids and Healthy Workers Programs, Valley Care, and MediCal Managed Care Program, and Agreements between SCVMC and the State for payment by the MediCal Program for hospital services. Other agreements include but are not limited to: hospitals, clinics, volunteer physicians and other volunteer medical professionals and ancillary and durable medical equipment/supplies. Contracts will be negotiated with providers to help achieve business objectives of managing financial risk to SCVMC and VHP, and to ensure member access to services, taking into account other considerations that are consistent with sound health plan management.

3. SCVMC, SCVMC Physician Services and VHP – Commercial Insurance and Managed Care Agreements, Risk Management, Service Agreements and Employer Group Agreements

Deputy County Executive/Acting Director of SCVHHS or designee and Chief Executive Officer of VHP or designee will have the authority to enter into agreements and amendments with HMOs and supplemental provider networks on behalf of SCVMC and its physicians. Contracts are negotiated on behalf of SCVMC and its physicians and VHP, and executed with major health plans to provide care to their enrollees. These agreements also include network PPOs that serve as intermediary providers and payors or employer groups. HMO and PPO managed care contracts offer the most business opportunities to SCVMC because they cover a large patient base locally in California and nationally.

For VHP, having access to supplemental provider networks will improve member access to needed services and assist VHP in managing large cases. Agreements will support VHP operations and regulatory compliance that include health educators and advertising of VHP.

Some of these agreements and amendments with health plans and commercial insurers related to providing hospital and professional services to their members include binding arbitration provisions. The authority to include binding arbitration in commercial agreements will allow SCVMC and VHP to keep pace with industry contracting practices.

4. Professional Services and Affiliations – Outreach Services for the Community

Deputy County Executive/Acting Director of SCVHHS or designee and Chief Executive Officer of VHP or designee will have the authority to enter into contracts, letter agreements, contracts and memoranda of understanding for the purpose of supporting providers in the community, improving access to patient services, and supporting business development activities of SCVMC. These agreements are for the provision of direct medical services, consultations and medical management by SCVMC physicians. Payment for these services will be made by direct payment or fee-for-service reimbursement. These types of agreements will include but are not limited to hospitals, clinics, and physician groups.

5. Leases of Medical Office Space in Santa Clara County

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into lease agreements in Santa Clara County to support outreach efforts. Lease agreements may include medical and administrative office personnel and space. The lease for office space may incur expenses up to \$50,000 per year.

6. Clinical Trials

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into contracts, amendments, memoranda of understanding and letter agreements, including agreements with third party administrators for the conduct and support of clinical research at SCVMC. Such agreements will be consistent with SCVMC contracting policies, procedures and research requirements.

7. Transfer Agreements

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into transfer agreements to ensure regulatory compliance between healthcare facilities. Such agreements usually do not have financial implications; however, any transfer agreement will be evaluated to meet County contracting requirements and the ability of SCVMC to provide the required patient care services. The transfer agreement also includes the provision that the transferred patient, if appropriate, will be returned to the transferring hospital once the patient is stable and otherwise fit to be transferred.

8. Education/Training Agreements

Deputy County Executive/Acting Director of SCVHHS or designee and Chief Executive Officer of VHP or designee will have the authority to enter into agreements with external health care organizations which are required to maintain training and education services for SCVMC and VHP employees, and where SCVMC or VHP may be the training site. This type of agreement involves limited or no financial risk.

9. Agreements with Donor Network

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into agreements to permit SCVMC to participate in tissue and organ donations. This type of agreement involves limited or no financial risk.

10. Intergovernmental Transfer of Funds (IGT) Agreements

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into agreements between the County of Santa Clara and the State Department of Health Care Services (DHCS) and Medi-Cal Managed Care health plans, whereby the County will transfer funds to DHCS to be used as the non-federal share of Medi-Cal managed care allowable funding increases, along with the related federal financial participation, for Medi-Cal Managed care plans. Plans will pay the County the full amount received from DHCS, including

repayment of County funds, in the form of local Medi-Cal Managed Care supplemental payments.

11. Authority to Extend the Term for Revenue and Clinical Research Agreements

Deputy County Executive/Acting Director of SCVHHS or designee and Chief Executive Officer of VHP or designee will have the authority to extend the term for clinical research agreements and revenue agreements where it is beneficial for SCVMC and VHP to do so, notwithstanding any other County policy. If the extension of the current revenue agreement retains or increases rates or terms which are favorable to SCVHHS, SCVHHS staff may recommend and the Deputy County Executive/Acting Director of SCVHHS or designee and the Chief Executive Officer of VHP or designee may approve an extension of the contract term for additional five-year terms consistent with the evaluation criteria in these policies.

12. Hospice Service Agreements

Deputy County Executive/Acting Director of SCVHHS or designee will have the authority to enter into agreements with local hospice agencies for the provision of hospice nurse liaison services at Santa Clara Valley Medical Center to promote the placement of patients into hospice care settings when appropriate. These agreements will provide no compensation to the local hospice agencies. Agreement will allow SCVMC to partner with hospices to have services provided for free from qualified nurses and other personnel as volunteers.

General Contracting Criteria and Procedures

All contracts covered under this delegation will meet the approval of the County Counsel as to form and legality, and the approval of the Office of the County Executive, and be consistently evaluated with the following criteria:

1. Contractual obligations will not compromise SCVMC or VHP's primary mission to provide access to those who otherwise cannot receive medical care, and for whom the County is responsible.
2. Contractual obligations will not exceed SCVMC and VHP's ability to provide or arrange for services.
3. SCVMC and VHP patient and provider agreements to send SCVMC patients to community providers will have terms that will be for no more than one year, with the ability to automatically renew on a yearly basis for up to five years, if not terminated by written notice. In certain cases, in accordance with type of agreements referenced in #11 above, SCVMC or VHP may make a

determination that the contract should be extended beyond the five year term to comply with clinical research standards or because of favorable rates and terms that would not be available except through a contract renewal.

4. Leases or professional agreements involving expenditure of funds by SCVMC will have terms that will be for no more than one year, with the ability to automatically renew on a yearly basis for up to five years, if not terminated by written notice.

5. Commercial and Medi-Cal Managed Care agreements may be terminated without cause by SCVMC after the initial term with written notice.

6. Utilization Review and other administrative requirements will not compromise SCVMC or VHP's standards of quality care or place undue administrative requirements on SCVMC or VHP. Relevant sections of provider manuals will be reviewed.

7. Insurance/indemnification provisions will meet County standards or receive the approval of the County Insurance Division and County Counsel.

8. Payment for managed care services will be consistent with industry standards. Medi-Cal pricing will be consistent with current Medi-Cal payment methodologies.

9. Clinical trial agreements will be in compliance with the clinical policies and procedures of SCVMC and the protocol approved by the Institutional Review Board.

10. Contracting organizations will meet all applicable licensure and regulatory requirements. Contracts will be in compliance with Federal, State and local regulations.

11. Contract payment for SCVMC services will meet or exceed the incremental cost of providing care.

Long-Term Third Party Payor and Affiliation Criteria

The following list of purchasers, providers and service characteristics outlines some of the factors which will be used by the Deputy County Executive/Acting Director of SCVHHS or designee or the Chief Executive Officer of VHP or designee in the evaluation of agreements. Third Party Payor and Affiliation agreements require additional criteria and involve County Counsel review and approval prior to the Chief Executive Officer approval. Although this list is an extensive one, the actual issues evaluated may necessarily vary from case to case.

1. Characteristics of the Contracting Entity - Long Term Arrangement: For a group insurer, the size of the insurer's target population, actual enrollment levels, geographic coverage, financial stability and growth potential are evaluated. For a provider, the location, stability of practice, market share and health plan needs are evaluated. In both types of agreements, the impact of a new contract on the existing contracts and business is considered (i.e. retention or loss of current business).

2. Characteristics of the Contracting Entity- Individual Payment Arrangement: Historically, individual payment arrangements were developed by SCVHHS or VHP staff and approved by the delegated person. The individual payment agreements contain standard contractual terms which have received prior approval of the County Council. Any modifications of the contractual terms will be approved by the County Counsel. These agreements are often developed and implemented in very short time periods to facilitate referrals and patient care treatment. For an individual or a one-time out-of-network episode, the insurance situation, financial resources and security, potential benefit for a particular SCVMC or VHP program and whether the service is elective or trauma/emergency, are considered.

3. Effect of Potential Contract Loss/Lack of Contract: In all scenarios, SCVMC or VHP must consider the impact of not having a particular contract or one-time payment arrangement. It might impact patient or member access. Additionally, the impact of business being redirected from SCVMC as a result of a decision by SCVHHS not to enter into an agreement is considered.

4. Potential Positive Benefit of a Contract: In all scenarios, SCVMC and VHP must consider if the contract offers the opportunity of volume, increases access to services, and builds or improves relationships that may develop through a new contract. Most commonly, a community physician group may wish to refer patients to SCVMC but that group participates in provider networks that do not include SCVMC. SCVMC must review this type of information and actively seek opportunities to increase volume and access at its facilities.

5. Financial Impact of Contract: When SCVMC is the provider of services, the financial arrangement must meet or exceed SCVMC's incremental cost for the types of services involved and covered by the contract (i.e. inpatient, outpatient, routine, specialty/tertiary, trauma, etc.)

6. Market Analysis: SCVMC, and VHP, as the purchaser of services, will ensure the financial arrangement meets market standards. SCVMC and

VHP will continuously study and evaluate the market in order to assure that this standard is met.

7. Utilization Review and Health Plan Administration: For group insurers, SCVMC and VHP evaluate the administrative requirements of each contract including policies for authorization of services, utilization review, claims submission/processing and prompt payment. The contract will also ensure that undue administrative burdens are not placed on SCVMC or VHP.

8. Legal and Regulatory Compliance: All contract documents, template agreements and unique terms are reviewed by County Counsel to assure legal and regulatory compliance as well as consistency and compliance with the contracting policies of the County of Santa Clara.

9. Equal Treatment: The terms and conditions for SCVHHS contracting will ensure equal treatment among individuals for similar services and financial status (i.e. unsponsored, non-APD).

Reporting to Health and Hospital Committee

Reports of all contracting activities will be presented to the Health and Hospital Committee on a semi-annual basis.

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Section 3. Purchase of Outside Medical Services

Background

- Santa Clara Valley Medical Center (SCVMC) is the primary provider of medical services to the County-operated Valley Health Plan (VHP), which provides health insurance to approximately 75,000 persons. However, SCVMC incurs additional costs whenever VHP insured members are sent to other medical service providers, because SCVMC does not perform the required medical service, its members choose not to use County services, or because its clinics are believed to be at capacity. These costs have increased from \$16.4 million in FY 2006-07 to \$39.4 million in FY 2009-10 – a \$23 million, or 140 percent, increase in three years.

Problem

- Actual FY 2009-10 clinic visit data provided by the SCVMC Budget Office showed that 32 of 45 clinics (71 percent) operated on average about 17.8 percent below budgeted capacity. Further, FY 2010-11 service levels by these clinics were 22 percent below budgeted capacity during the first four months of FY 2010-11. Audit staff independently confirmed the underutilization of clinic resources by analyzing five specialty clinics during the first five months of FY 2010-11. In these clinics, actual visits totaled only 21,287, or 62.8 percent, of 33,281 budgeted visits. Further, regional clinic data compiled by the Alvarez and Marsal consultants showed that actual visits at six regional clinics during the first quarter of FY 2010-11 totaled only 22,481, or 67.6 percent, of 33,233 budgeted visits.

Concurrent with the broad underutilization of budgeted patient visit capacity, during the past 18 months, actual total SCVMC physician staffing exceeded budgeted staffing by an average of 22.1 full-time equivalent (FTE) positions costing about \$7.0 million annually. Despite these operational inconsistencies, SCVMC supervising clinic medical staff does not receive monthly management reports that would enable them to better coordinate staffing and workload.

Adverse Effect

- During the past two fiscal years, SCVMC has had more FTE physicians on its payroll than were budgeted or justified based on the significant under-realization of budgeted inpatient census and outpatient visits in FY 2009-10 and FY 2010-11, yet about 45,000 patient visits and related ancillary services are being provided annually by outside medical providers. Some of these services should have been provided by SCVMC at little or no additional County cost.

Recommendations

- By establishing appropriate patient-visits-per-hour goals consistent with prevailing medical practices, monitoring actual performance and reporting the results monthly to all clinic managers, medical staff, and SCVHHS Administration, the size of the medical staff could be more precisely matched with the patient workload, and both the use of outside medical services and clinic operating costs could be reduced by approximately \$13.8 million annually.

County Purchase of Outside Medical Services

The County-operated Valley Health Plan (VHP) provides health insurance for approximately 75,000 persons, primarily through the health care resources of the Santa Clara Valley Health and Hospital System (SCVHHS), including Santa Clara Valley Medical Center (SCVMC) and its network of eight regional and 46 specialty clinics. One of the objectives in formulating the VHP was to leverage the County's investment in its health care facilities by attracting clients who would otherwise be covered by private health insurance paid by the County, such as County employees who would opt for Kaiser, Health Net PPO or Health Net POS, or by government funded health insurance, such as Medicare or Medi-Cal. Under this model, the County's variable cost of caring for additional patients is nominal, since the facilities, equipment and much of the staff would be required whether or not the County offered the health insurance plan. However, when insured members go to non-County providers and facilities for services, the economic benefit of the model can quickly be undermined, particularly if County facilities are rigidly staffed and underutilized.

Reasons for Use of Outside Medical Services by VHP

The primary reasons why covered members of VHP do not use SCVMC services or facilities include:

1. SCVMC does not offer the needed medical procedure;
2. SCVMC offers the procedure, but the clinic has no available appointments within the legally required 14-day timeframe for non-urgent primary care or 21-day timeframe for non-urgent specialty care, as specified in Section 1300.67.2.2 of the California Code of Regulations, Division 1, Chapter 2, Article 7;
3. VHP commercial members can use outside medical providers in emergency situations, or if they choose to do so;
4. VHP commercial members can use affiliated clinics in the County if use of SCVMC facilities would require more than 15 miles or 15 minutes of travel from their home or workplace; and
5. VHP commercial members can use outside medical providers to get a second opinion.

In addition to the reasons described above, SCVMC uses outside medical providers for medically indigent patients when it cannot provide needed procedures at its facilities or does not have any available appointments within a reasonable period of time. During the past five fiscal years, the total annual cost of outside medical services for VHP and SCVMC patients combined has increased by approximately 140.5 percent, as shown in Table 3.1 on the next page. SCVHHS pointed out that health care inflation probably accounted for about 27.9 percent of the increased cost of outside medical services, based on an estimated average annual inflation rate of 9.3 percent. Some of the remaining

112.6 percent increase in cost would be attributable to growth in the number of insured members of VHP, including the In-Home Supportive Services (IHSS) population.

Table 3.1

**Actual SCVMC Expenditures for
Outside Medical Services**

<u>Fiscal Year</u>	<u>Amount</u>
FY 2010-11*	\$20,872,898
FY 2009-10	39,437,889
FY 2008-09	28,936,452
FY 2007-08	20,491,792
FY 2006-07	\$16,397,480

* Actual five months expenditures from 7/1 to 11/30

To determine the extent to which outside medical expenses resulted from the five categories of potential causes listed above, we interviewed SCVHHS administrative and ambulatory staff to obtain operational reports or other financial data that may have been compiled on this subject. However, we were advised that no such data or reports existed, although all three staff interviewed reported a primary problem was the unavailability of appointments in the 46 SCVMC clinics. In addition, of the five primary reasons why patients may be sent to private medical providers instead of SCVMC facilities, "unavailability of clinic capacity" is the only one that can be corrected by operational or budget changes by the County.

Verifying the Unavailability of Patient Visits at the 46 SCVMC Clinics

In order to verify that the clinics were actually operating in excess of the budgeted capacity for patient visits, we requested and obtained the SCVHHS FY 2010-11 budget work papers for the calculation of patient visits for each of the 46 ambulatory care clinics. Attachment 3.1 shows that the 950,685 budgeted visits for FY 2010-11 were calculated by adding 73,131 visits (Attachment 3.2) to the FY 2009-10 budgeted amount of 877,654 visits. Using prior year budget statistics and amounts to base projections for the subsequent year budget was highlighted as an inappropriate procedure that diminished the accuracy of budget projections in the December 1, 2009 review of SCVHHS budget documentation and work papers supporting the FY 2009-10 Object Two budget. Attachment 3.1 shows that when the FY 2010-11 budget was prepared in late 2009, the most recent fiscal year total for actual visits was only 789,827 in FY 2008-09, and the 12-month total actual number of patient visits, from November 2008 to October 2009, was only 819,080. By not using the most recent available actual performance results to project the FY 2010-11 patient visit budget, the budget was set unrealistically high, at 131,605 more visits than had actually occurred in the most recent 12-month period. Based on an average projected cost per patient visit of \$147, the

ambulatory care budget was increased by about \$19.4 million, most of which was unjustified and resulted in overstaffing.

Since the SCVHHS Budget Office monitors actual versus budgeted patient visits by clinic, we requested a report comparing budgeted and actual patient visits for FY 2009-10 and year-to-date for FY 2010-11. These reports confirmed that projecting future budgets based on prior year budgets, rather than actual visits, had overstated the budget in FY 2009-10 and FY 2010-11, as shown in Attachments 3.3 and 3.4. During FY 2009-10, 32 of 45 clinics under-performed the budgeted visits by an average of 17.8 percent, while 13 clinics out-performed the budgeted visits by an average of 15.0 percent. For FY 2009-10 in total, the clinics under-performed the budgeted visits by 59,683 visits, or 6.8 percent. For the first four months of FY 2010-11, 36 of 46 clinics under-performed the budgeted visits by an average of 22.0 percent, while 10 clinics out-performed the budgeted visits by an average of 20.8 percent. However, for the first four months of FY 2010-11 in total, the clinics under-performed the budgeted visits by 51,569 visits, or 16.2 percent. On an annual basis, actual FY 2010-11 outpatient visits are projected to be over-budgeted by about 153,000 visits, or \$22.6 million. It should be noted that Attachment 3.2 utilizes a staffing standard of 3,000 visits per one P41 Physician.

Reconciling the Unavailability of Clinic Patient Visits with Excess Budget Capacity

Specialty Clinics

To attempt to reconcile the lack of available appointments for patient visits in the 46 SCVMC clinics with the SCVHHS budget and operating visit statistics, we selected five specialty clinics to audit the actual patient appointment schedules for the five-month period July 1, 2010 to November 30, 2010. The five clinics selected were Infusion, Ophthalmology, Pre-Op Testing/Surgery Daycare, Radiation Therapy and Surgery-General/Urology. The performance of these clinics during the first five months of FY 2010-11 is shown in the table on the next page.

Table 3.2

**Budgeted Versus Actual Patient Visits in
Five Sampled Specialty Clinics
(Jul 1, 2010 to Nov 30, 2010)**

<u>Clinic</u>	<u>Budgeted Patient Visits</u>	<u>Scheduled Patient Visits</u>	<u>Percent of Budget</u>	<u>No-Shows Net of Walk-Ins</u>	<u>Actual Patient Visits</u>
Infusion	5,345	3,215	60.2%	-216	2,999
Ophthalmology	9,222	8,576	93.0%	-1,333	7,243
Pre-Op Test/Surg Daycare	3,773	2,316	61.4%	54	2,370
Radiation Therapy	4,961	2,988	60.2%	-71	2,917
Surgery-Gen/Urology	<u>10,591</u>	<u>6,982</u>	<u>65.9%</u>	<u>-1,224</u>	<u>5,758</u>
Total	33,892	24,077	71.0%	-2,790	21,287
Percent of Budget					62.8%

As shown in Table 3.2, there are two primary factors that prevent SCVMC clinics from making more appointments available for patient visits, which in turn requires referral of patients to outside medical service providers, even though the same services are offered at SCVMC clinic facilities. The primary contributing factor is the lack of coordination between scheduling practices and budgeted capacities. With the exception of the Ophthalmology Clinic, which scheduled patient visits at 93 percent of its budgeted capacity, the remaining four clinics scheduled patient visits at 60.2 percent to 65.9 percent of budgeted capacity. For the five clinics sampled, only 24,077 patient visits were scheduled, although budgeted staff resources could have accommodated 33,892 patient visits (9,814 budgeted patient visits were not used). The FY 2010-11 budget for the five clinics totaled \$11,489,875, or approximately \$142 per patient visit, ranging from \$59 to \$247 per visit. Consequently, the County cost of unused medical resources by these five clinics during this five-month period amounted to about \$1,661,220 from which no services were provided patients. SCVHHS reported special circumstances that explained why each of the five sampled clinics underperformed the budgeted patient visits during the first five months of FY 2010-11. However, 32 clinics underperformed the budgeted patient visits by a total of 108,683 in FY 2009-10 and 36 clinics underperformed the budgeted patient visits by a total of 60,711 patient visits in the first four months of FY 2010-11. Consequently, we believe the gap between budget and actual performance is a systemic problem with a multi-million dollar negative impact if it is not aggressively addressed and corrected.

Patients who do not show-up for appointments are the second primary cause of under-utilization of budgeted clinic capacity. During the five-month sample period, 4,169 patients, or 17.3 percent, did not show-up or cancelled their appointments, versus the 24,077 patient appointments scheduled. Table 3.3 shows the no-show/cancellation rate for each clinic.

Table 3.3

**Patient No-Shows/Cancellations Versus
Scheduled Patient Visits
(Jul 1, 2010 to Nov 30, 2010)**

<u>Clinic</u>	<u>Scheduled Patient Visits</u>	<u>Patient No-Shows/ Cancellations</u>	<u>Percent</u>
Infusion	3,215	350	10.9%
Ophthalmology	8,576	1,919	22.4%
Pre-Op Test/Surg Daycare	2,316	385	16.6%
Radiation Therapy	2,988	175	5.9%
Surgery-Gen/Urology	<u>6,982</u>	<u>1,340</u>	<u>19.2%</u>
Total	24,077	4,169	17.3%

During the sample period, July 1 to November 30, patient walk-ins totaling 1,379 offset some of the no-shows and cancellations, but the net amount of missed patient appointments due to no-shows and cancellations amounted to 2,844, or 11.8 percent of the 24,077 scheduled visits.¹ Based on the average budgeted cost per visit in each clinic (\$59 to \$247), the net missed appointments cost the County approximately \$273,775. In total, during the first five months of FY 2010-11 in the five sample clinics, SCVMC expended about \$1,934,995 on clinic staffing and operating costs from which no patient services were obtained due to under-scheduling patient visits and patient no-shows and cancellations. On an annualized basis, the budgeted cost of clinic operations in excess of actual services provided just for the five sampled clinics is projected to amount to about \$4,616,000. During this same five-month period of time, SCVMC expended \$20,872,898 on outside medical services. SCVHHS should therefore direct all clinic managers to review appointment procedures followed by the Central Appointment Scheduling Unit to ensure that the daily appointment schedule for each clinic fully utilizes the budgeted capacity for that clinic, including double-booking appointments as necessary to account for patients who do not show up for scheduled appointments.

¹ The total number of no-shows after deducting walk-ins for the five sample clinics was 2,790, as shown in Table 3.2. However, because the Pre-Op Testing/Surgery Day Care clinic had 54 more walk-ins than no-shows, the actual number of net no-shows in the other four clinics that can be corrected by scheduling additional patient visits is 2,844.

Regional Clinics

In addition to the 40 specialty clinics, the County operates six regional clinics, as follows:

- East Valley Clinic
- Gilroy Clinic
- Milpitas Clinic
- Moorpark Clinic
- Sunnyvale Clinic
- Tully Clinic

Concurrent with the SCVHHS Administration and Support Services review by Management Audit staff, the consulting firm of Alvarez and Marsal has been analyzing clinic operations, including staffing, budgeted and actual patient visits. For the first quarter of FY 2010-11, data provided by Alvarez and Marsal shows a similar pattern of excess capacity in the six regional clinics, which had 33,234 total budgeted patient visits, but only realized 22,481 total actual patient visits. Table 3.4 shows the comparative data by clinic.

Table 3.4

**Budgeted Versus Actual Patient Visits by Clinic
(Jul 1, 2010 to Sep 30, 2010)**

<u>Clinic</u>	<u>Budgeted Patient Visits</u>	<u>Actual Patient Visits</u>	<u>Percent Utilization</u>	<u>Budgeted Cost Per Clinic Visit</u>	<u>Cost of Unused Clinic Visits</u>
East Valley	4,934	3,113	63%	\$ 86	\$156,157
Gilroy	3,677	3,141	85%	98	52,583
Milpitas	2,709	1,284	47%	192	274,299
Moorpark	12,578	8,143	65%	98	433,236
Sunnyvale	2,467	1,442	58%	143	146,755
Tully	<u>6,869</u>	<u>5,358</u>	<u>78%</u>	<u>67</u>	<u>101,311</u>
Total	<u>33,234</u>	<u>22,481</u>	<u>68%</u>	<u>\$95</u>	<u>\$1,164,342</u>

Based on the data in Table 3.4, the under-utilization of budgeted capacity at the six regional clinics during the first three months of FY 2010-11 amounted to 10,753 visits at a weighted average cost of \$108 each, or a total of \$1,164,342 of clinic staff resources expended from which no patient services were obtained². On an annualized basis, unused resources in these six clinics would amount to about \$4,657,000. SCVHHS staff pointed out that implementing the hospital's electronic medical records system was a

² Table 3.4 shows the FY 2010-11 weighted average cost per clinic visit to be \$95. However, the weighted average cost of the unused visits during the first three months of FY 2010-11 amounted to \$108 per clinic visit.

major cause of the underperformance of patient visits in the clinics. They reported that the productivity losses that result from the implementation of new electronic medical records systems are well documented in medical literature. However, as can be seen in Table 3.4, there was a wide range of performance between the clinics, with Gilroy achieving 85 percent of its budgeted visits, while Milpitas, Sunnyvale and East Valley averaged only 56 percent of the budgeted visits. This type of unexplained substantial variance in productivity is another example of the need to measure and report patient visits-per-physician-hour data so that clinic chief physicians can better manage physician resources with patient workload.

Budgeted Versus Actual Physician Staffing

Based on the operational clinic statistics shown in Tables 3.2 to 3.4, clinic patient visits and related staffing have been significantly overestimated thus far in FY 2010-11. Patient activity was similarly overestimated in FY 2009-10. The FY 2009-10 inpatient census was only 116,748 patient days, or 16,477 patient days (12.4 percent) under budget versus the budget estimate of 133,225 patient days. Outpatient clinic visits totaled only 829,394, or 48,260 less than the 877,654 visits budgeted. Despite the substantial underutilization of both inpatient and outpatient resources the past two fiscal years, SCVMC has not correspondingly adjusted its budget or actual use of its more than 5,000 full-time equivalent (FTE) staff resources. To the contrary, during FY 2009-10, P-41 physician staffing was budgeted at an average of 315.9 FTEs, but actual staffing grew from 323.2 in July 2009 to 340.3 in June 2010, and averaged 341.8 during FY 2009-10, exceeding the budget authorization by an average of 25.9 FTEs during the fiscal year, as shown in Attachment 3.5. The approximate FY 2009-10 cost of the 25.9 FTEs was about \$7,056,000. In addition, had SCVMC management monitored and reduced P41 Physician staffing to more closely track the level justified by actual patient census and visits (5.5 percent to 12.4 percent below budget), each 1.0 percent P41 Physician staffing reduction would have saved approximately \$1.0 million. SCVHHS reported that the reduction in inpatient census below budgeted levels for the past two fiscal years does not correspondingly result in a reduced requirement for physician staffing, particularly with the 30 percent increase in Emergency Department visits and the implementation of the new electronic medical records system during this period. However, the simultaneous substantial under-performance of outpatient visits (which includes the Emergency Department) must be accounted for with incremental service level adjustments to staffing, since physician staffing was adjusted upward through the annual budget process based on service level increases generally defined in terms of new or increased services measured in additional patient days or patient visits.

Although SCVMC adjusted its budgeted P41 Physician staffing downward in FY 2010-11, from an average of 315.9 FTEs in FY 2009-10 to 314.3 FTEs in FY 2010-11, actual expenditures for P41 Physician staffing continue to significantly exceed the budget, while both inpatient and outpatient activity continue to decline from FY 2009-10 levels. For the first six months of FY 2010-11 through December 2010, actual P41 Physician staffing averaged 326.6 FTEs, compared with the authorized budget averaging 312.2 FTEs, or 14.4 FTEs fewer than were on the payroll (Attachment 3.6).

For the most recent month for which data is available, December 2010, actual P41 Physician staffing exceeded budget by 15.2 positions (328.51 vs. 313.34). Based on an average FY 2010-11 budgeted cost per P41 Physician of \$319,355, the total FY 2010-11 over staffing cost related to the 14.4 excess P41 Physicians would amount to approximately \$4,599,000³. SCVHHS reported that the excess physician staffing is the result of using unbudgeted extra help physicians to fill in at nights and on weekends in the Emergency Department, Labor and Delivery, Anesthesiology, Urgent Care and other areas. While the use of extra help resources to flex staffing requirements is an efficient and essential staffing tool, the fact that this staffing component is not a part of the physician staffing budget is an indication that the core permanent coded staffing pool is greater than it should be to allow some flexing of physician staffing to meet changing patient workload demands.

To bring actual P41 Physician staffing into alignment with the authorized budget, SCVMC management should delete the equivalent of approximately 14.4 FTE P41 Physician positions that are vacant or that become vacant through attrition. In addition, SCVMC management should take immediate steps to develop and implement procedures to adjust P41 Physician staffing throughout the fiscal year, and as precisely as possible coordinate actual staffing with workload (actual patient census, outpatient visits and other physician duties) by maintaining and utilizing extra help physician resources to flex physician staffing levels as is currently done to staff night and weekend shifts. Consequently, permanent coded positions should be reduced immediately through attrition and by deleting the 12 vacant P41 positions identified by the Employee Services Agency in their report of vacant funded positions as of January 23, 2011.

In addition to the County's costs for staffing both hospital and clinic facilities in excess of budget, costs related to the purchase of outside medical services continue to increase, as shown in Table 3.1. During the most recently completed fiscal year, FY 2009-10, expenditures increased to \$39.4 million and accounted for more than 45,000 outside patient visits and ancillary services, even though County clinics were underutilized and overstaffed. To help monitor and control outside medical costs, SCVHHS should produce a monthly report to track such costs and categorize the purpose for the use of each outside provider, as well as the specific type of clinic or ancillary service that was used. This report should be distributed to SCVHHS Ambulatory Care Administration and to all clinic managers, including Chief Physicians, to monitor the usage of outside medical services and to ensure that such services are only utilized when the County has no capacity in its clinics.

³ The physician staffing cost in excess of budget is projected based on the average FY 2010-11 budgeted cost of 324.3 FTEs included in the recommended budget. To the extent that P41 Physician FTEs in excess of the authorized budget are extra-help positions, the cost would be less.

Physician Productivity Goals for Clinic Operations

Historically, SCVMC has used patient-visit-per-hour goals to monitor clinic productivity and to establish clinic staffing levels. This practice is consistent with practices at other medical centers in California, as well as private specialty clinics. Further, SCVHHS Ambulatory Care Administration staff reported that as part of the T2010 Initiative, Deloitte Consulting provided data generated by the Medical Group Management Association (MGMA) that represented median patient-visits-per-hour guidelines as reported by its members for a variety of clinics. This information was intended to be used as a guide for SCVHHS to establish its own standards, customized to its specific clinics and the patients served. Depending on the clinic, MGMA patient-visits-per-hour data ranged from a low of about 0.8 visits per hour, for GI and Pulmonary clinics, to a high of 3.3 visits per hour, for a Dermatology clinic.

Other professional organizations have also adopted patient-visits-per-physician-hour guidelines for its members. As an example, the American Academy of Emergency Medicine adopted a guideline for emergency room physicians of 2.5 patient visits per physician hour. However, the SCVMC Chief Medical Officer reported that SCVMC previously used a general standard of 2.5 patient visits per physician hour, but now has moved toward a Medical Home Model with the objective of reducing the inpatient census and outpatient visits, reducing costs and achieving measurable improved health outcomes, and/or treating a larger population with the same amount of budgeted resources. However, in addition to measuring and reporting the results of the Medical Home Model, and in order to monitor physician productivity during clinic operating hours, as well as for purposes of determining staffing budgets, regular reporting of patient visits per physician hour is a useful tool that should be continued and provided to both Ambulatory Care Administration, as well as clinic managers and clinic Chief Physicians. Without such performance data, clinic managers and physicians cannot be expected to proactively manage their clinics and adjust staffing to achieve cost effective goals as patient demand changes. When combined with participation in the development of the budget and the expected patient visits related to that budget, providing clinic managers and physicians monthly performance data completes the prerequisites for establishing accountability at the cost center level, which heretofore has not existed.

CONCLUSION

The County is experiencing rapidly increasing outside medical costs, even though County clinics and ancillary service providers offer the same services and have been underutilized during the past two fiscal years. However, SCVHHS Ambulatory Care Administration and clinic managers do not receive monthly reports with the specific information necessary to enable them to evaluate and proactively manage the usage of outside medical services in order to minimize such costs. FY 2010-11 potential cost savings from managing actual staffing and operating costs with actual patient visits and related services are estimated to amount to approximately \$13.8 million.

RECOMMENDATIONS:

The Santa Clara Valley Health and Hospital System should:

- 3.1 Direct all clinic managers to review appointment procedures followed by the Central Appointment Scheduling Unit to ensure that the daily appointment schedule for each clinic fully utilizes the budgeted capacity for that clinic, including double-booking appointments as necessary to account for patients who do not show up for scheduled appointments. (Priority 1)
- 3.2 Immediately reduce actual P41 Physician staffing by approximately 14.4 FTEs to comply with the maximum budgeted authorization for P41 Physicians by deleting permanent coded P41 Physician positions that are vacant or become vacant through attrition. (Priority 1)
- 3.3 Develop and implement procedures to adjust P41 Physician staffing throughout the fiscal year, and as precisely as possible coordinate actual staffing with actual workload (actual patient census and actual outpatient visits) by maintaining and utilizing extra help physician positions to flex staffing levels as necessary. (Priority 1)
- 3.4 Produce a monthly report to track outside medical costs and categorize the purpose for the use of each outside provider as well as the specific type of clinic or ancillary service that was used. This report should be distributed to SCVHHS Ambulatory Care Administration and to all clinic managers, including Chief Physicians to monitor the usage of outside medical services and to ensure that such services are only utilized when the County is at or above capacity in its clinics. (Priority 1)
- 3.5 Establish clinic specific patient-visits-per-physician-hour goals consistent with the hours of operation and physician staffing in each clinic, and customize the quantitative hourly goal to reflect the unique aspects of each specific clinic and the patients whom we serve. These clinic specific goals should also be used for purposes of budgeting clinic staffing levels. (Priority 1)
- 3.6 Prepare and distribute a monthly report of patient-visits-per-physician-hour to Ambulatory Care Administration and all clinic managers, including clinic Chief Physicians. (Priority 1)

SAVINGS, BENEFITS AND COSTS

The implementation of these recommendations would result in the elimination of approximately 14.4 FTE P41 Physician positions, saving approximately \$4.60 million annually. Further position deletions to better coordinate actual staffing with actual

workload could also result in substantial additional cost savings. Providing clinic managers and Chief Physicians with monthly management reports of workload and visits per physician hour would enable cost center staff to proactively manage their cost centers in accordance with their annual budgets and budgeted service levels resulting in annual savings of up to \$9.2 million. Such information would potentially avoid or reduce unnecessary costs resulting from over budgeted staff resources and/or lower than anticipated patient visits, and would enable many visits currently referred to outside medical providers to be accommodated in County clinics and ancillary service facilities with the potential to reduce outside medical service costs by millions of dollars annually.

**FY 2010-11
HHS BUDGET PROJECTION WORKSHEET
PATIENT VISITS AND PHYSICIAN STAFFING**

FY11 Visit Trends and Projection Worksheet	Actual	Actual	Actual	Actual	Actual	12	FY10	FY11
	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	Months 11/1/08 - 10/31/09		
6881 HOMELESS HEALTH CARE ACCESS	1,814	2,252	4,829	6,107	7,905	6,077	6,000	6,000
6882 Homeless Shelter	2,611	3,023	1,725	1,990	2,344	2,852	2,000	2,000
6890 CHILD PROTECTION	170	157	180	140	95	108	150	150
Other	4,595	5,432	6,734	8,237	10,344	9,037	8,150	8,150
6607 OPD RADIATION THERAPY	8,842	7,687	8,589	9,604	10,695	10,348	10,585	11,835
6608 OPD ONCOLOGY	10,178	3,824	4,197	5,277	6,961	8,168	6,000	10,000
6741 OPD INFUSION	133	6,409	5,420	4,246	7,168	7,079	12,750	12,750
Oncology	19,153	17,920	18,206	19,127	24,824	25,595	29,335	34,585
6657 VHC DERMATOLOGY	10,808	10,131	12,462	12,126	7,291	2,999	-	-
6963 VSC RHEUMA/DERMA					8,193	15,986	22,400	22,400
6672 MPC ARTHRITIS CLINIC		4,220	6,559	8,221	5,234	2,242	-	-
6674 OPD ENT	11,041	10,041	10,106	9,631	9,783	10,037	12,000	12,000
6677 OPD EYE	18,129	20,096	20,360	19,831	18,513	18,186	22,000	22,000
6678 OPD PULMONARY/ENDO	10,014	9,742	9,526	9,824	8,103	6,250	6,400	6,400
6679 OPD SURGERY	17,248	16,662	16,732	16,120	17,175	18,078	20,765	25,265
6686 OPD ORTHOPEDIC	16,678	15,827	16,685	15,904	19,139	20,551	18,940	23,440
6735 OPD URODYNAMICS			3,327	3,818	4,400	4,316	4,500	4,500
6971 VSC SOUTH BAY GENETICS						47	-	2,000
6975 VSC PRE-OP TESTING						378	-	9,000
Surgical Specialty	83,918	86,719	95,757	95,475	98,256	101,740	107,005	127,005
6676 RENAL CENTER - NEPHRO CLINIC			6,530	6,801	7,904	7,943	6,400	9,400
6621 ACUTE DIALYSIS	65	68	69	95	27	65	-	-
6623 CHRONIC PERITONEAL DIALYSIS	1,068	1,118	1,173	425	225	259	1,000	1,000
6624 CHRONIC HEMODIALYSIS	2,037	2,087	2,826	3,715	2,857	3,018	3,000	3,000
Renal Services	3,170	3,273	10,598	11,036	11,013	11,285	10,400	13,400
6655 VHC CARDIOLOGY	7,313	6,663	7,388	8,453	5,715	2,377	-	-
6656 MPC DIABETES AND METABOLISM	10,798	11,369	9,264	8,520	5,300	3,231	1,900	1,900
6731 OPD GI	9,259	8,712	13,093	13,321	8,859	5,327	3,300	3,300
6712 OPD ALLERGY				1,569	1,341	666	1,500	1,500
6962 VSC GASTROTLGY/GASTRO SPEC					3,774	7,462	11,536	13,562
6961 VSC EEG/EMG						22	-	-
6973 VSC NEUROLOGY/NEUROSCIENCE					2,177	4,620	5,578	8,250
6966 VSC CARDIO VASCULAR					3,765	6,943	11,000	11,000
6972 VSC DM/METAB/ENDO					3,151	6,143	13,100	13,100
6688 MPC REHAB	7,786	7,439	7,107	6,701	5,863	4,563	3,600	3,600
6663 MPC EMPLOYEE HEALTH	7,259	16,306	15,600	10,741	9,750	8,471	10,000	10,000
6660 MPC Neuro	6,376	486	465	448	321	147	-	-
Specialty Care - Other	48,791	50,975	52,917	17,890	50,038	49,971	61,514	66,212
Specialty Care	155,032	158,887	177,478	44,830	184,131	188,591	208,254	241,202
6549 OPD PEP	14,562	8,470	3,843	5,837	4,286	2,210	1,500	-
6640 VHC EAST VALLEY	106,663	108,267	109,264	112,049	111,296	112,156	115,000	116,000
6648 VHC SILVER CREEK	33,519	10,423	10,808	8,804	9,904	10,426	9,500	-
6638 VHC MILPITAS								25,583
6681 VHC SILVERCREEK ALLERGY			1,564	85	-	-	-	-
6653 VHC MOORPARK PRIMARY CARE	56,324	55,482	54,029	53,662	52,864	50,930	54,000	59,000
6659 VHC BASCOM PEDIATRICS	68,163	72,599	72,328	76,929	82,661	84,052	84,000	87,000
6661 VHC BASCOM URGENT CARE	8,482	5,537	48	-	7,652	14,066	18,000	18,000
6662 VHC BASCOM OB/GYN	48,573	48,573	46,399	51,644	51,547	48,001	58,800	45,800
6666 VHC TULLY		48,904	58,597	72,904	76,500	76,086	72,200	77,200
6670 OPD URGENT CARE	22,614	22,195	22,296	17,582	10,507	4,635	-	-
6671 VHC BASCOM PEP	1	6,920	9,754	9,216	11,954	14,686	14,500	16,000
6675 VHC FAIROAKS	16,452	16,224	15,769	15,515	4,714	5	-	-
6684 DENTAL	25,175	26,510	25,878	25,866	28,364	29,550	28,000	24,150
6695 VHC GILROY					25,984	37,033	36,167	36,167
6705 VHC SUNNYVALE					10,651	16,352	18,003	18,003
6883 DISCHARGE CLINIC		910	985	1,527	1,534	1,451	1,500	1,500
ACHS Primary Care	461,911	467,742	464,573	451,620	490,418	501,639	511,170	524,403
Ambulatory and Managed Care	621,538	632,061	648,785	504,671	684,893	699,267	727,574	773,755
6591 ELECTROENCEPHALOGRAPH (EEG)				6	20	27	-	50
6597 RADIOLOGY - SPECIAL PROCEDURES						10	-	50
6579 LAB - PULMONARY FUNCTION		189	452	425	449	452	500	500
Clinical and Support Services	-	189	452	431	469	489	500	600
6634 RME (every day)	-	-	13,860	20,352	23,224	27,211	22,900	29,000
6634 ED VISITS without RME (every day)	40,849	42,406	39,763	38,925	44,199	43,717	39,750	45,000
total ED (every day)	40,849	42,406	53,623	59,277	67,423	70,928	62,650	74,000
6690 EXPRESS CARE (closed Thanks & Xmas)				22,516	35,695	40,386	30,850	46,250
Nursing Services	40,849	42,406	53,623	81,793	103,118	111,314	93,500	120,250
SCVMC Operations	662,387	674,656	702,860	586,895	788,480	811,070	821,574	894,605
6711 MH Specialty Assessment Center				794	787	951	2,200	2,200
6717 MHSA UC					560	1,956	7,000	7,000
6736 SUNNYVALE MENTAL HEALTH						2,579	17,580	17,580
6737 EAST VALLEY MENTAL HEALTH						2,014	23,440	23,440
6738 GILROY MENTAL HEALTH						510	5,860	5,860
SCVMC FY 2010-11 Projected Patient Visits	662,387	674,656	702,860	587,689	789,827	819,080	877,654	950,685

Increase(Decrease) in FY 2010-11 Budgeted Patient Visits

FY11 Visit Trends and Projection Worksheet	Incr(Decr) to FY2009-10 Budget	Assumptions/Comments
6881 HOMELESS HEALTH CARE ACCESS	-	
6882 Homeless Shelter	-	
6890 CHILD PROTECTION	-	
Other	-	
6607 OPD RADIATION THERAPY	1,250	added 1250 visits for 2nd LINANC
6608 OPD ONCOLOGY	4,000	per am care, to balance reduction in Bascom OB visits
6741 OPD INFUSION	-	
Oncology	5,250	
6657 VHC DERMATOLOGY	-	
6963 VSC RHEUMA/DERMA	-	
6672 MPC ARTHRITIS CLINIC	-	
6674 OPD ENT	-	
6677 OPD EYE	-	
6678 OPD PULMONARY/ENDO	-	
6679 OPD SURGERY	4,500	per am care, to balance reduction in Bascom OB visits
6686 OPD ORTHOPEDIC	4,500	per am care, to balance reduction in Bascom OB visits
6735 OPD URODYNAMICS	-	
6971 VSC SOUTH BAY GENETICS	2,000	+1000 from proposal; +1000 adjustment to actuals
6975 VSC PRE-OP TESTING	9,000	+9000 adjustment to actuals
Surgical Specialty CLINIC	20,000	
6621 ACUTE DIALYSIS	3,000	augmentation 1.0 MD = 3,000 visits
DIALYSIS	-	
6624 CHRONIC HEMODIALYSIS	-	
Renal Services	3,000	
6655 VHC CARDIOLOGY	-	
METABOLISM	-	
6731 OPD GI	-	
6712 OPD ALLERGY	-	
SPEC	2,026	contrac GI doc added in UM proposal
6961 VSC EEG/EMG	-	
NEUROLOGY/NEUROSCIENCE	2,672	2 HD clinics + stroke clinic--non budget proposal add'n
6966 VSC CARDIO VASCULAR	-	
6972 VSC DM/METAB/ENDO	-	
6688 MPC REHAB	-	
6663 MPC EMPLOYEE HEALTH	-	
6660 MPC Neuro	-	
Specialty Care - Other	4,698	
Specialty Care	32,948	
6549 OPD PEP	(1,500)	most of OPD pep moved to Bascom PEP
6640 VHC EAST VALLEY	1,000	
6648 VHC SILVER CREEK	(9,500)	
6638 VHC MILPITAS	25,583	SC,6K 2MD's Pedi MC, 10083 3 MDs1NP 11 mo EAPC
6681 VHC SILVERCREEK ALLERGY	-	
6653 VHC MOORPARK PRIMARY CARE	5,000	2K =(2/3) share of 2 hosp's in EAPC; 3K 3 NPs Med Home 6 m
6659 VHC BASCOM PEDIATRICS	3,000	1 MD from pedi medi-cal expansion
6661 VHC BASCOM URGENT CARE	-	
6662 VHC BASCOM OB/GYN	(13,000)	reduced per Am Care
6666 VHC TULLY	5,000	Med Home 2NP's 6 months=2K; 1MD pedi MC exp
6670 OPD URGENT CARE	-	
6671 VHC BASCOM PEP	1,500	+1500 OPD pep moved here
6675 VHC FAIROAKS	-	Visits combined with Sunnyvale
6684 DENTAL	(3,850)	dental reduction
6695 VHC GILROY	-	
6705 VHC SUNNYVALE	-	
6883 DISCHARGE CLINIC	-	should be under VSC
ACHS Primary Care	13,233	
Ambulatory and Managed Care	46,181	
6591 ELECTROENCEPHALOGRAPH (EEG)	50	
6597 RADIOLOGY - SPECIAL PROCEDURES	50	
6579 LAB - PULMONARY FUNCTION	(0)	
Clinical and Support Services	100	
6634 RME (every day)	6,100	
6634 ED VISITS without RME (every day)	5,250	
total ED (every day)	11,350	
6690 EXPRESS CARE (closed Thanks & Xmas)	15,400	
Nursing Services	26,850	
SCVMC Operations	73,131	
6711 MH Specialty Assessment Center	-	GF: Martha Paine & Nancy Kaatz
6717 MHSA UC	-	
6736 SUNNYVALE MENTAL HEALTH	-	
6737 EAST VALLEY MENTAL HEALTH	-	
6738 GILROY MENTAL HEALTH	-	
SCVMC	73,131	

**ANALYSIS OF FY 2009-10 ACTUAL CLINIC VISITS VERSUS BUDGET
IN CLINIC VARIANCE ORDER**

Count	Clinic	Number of Clinic Visits			Variance %
		FY 2009-10 Actual	Budget	Variance	
1	6549 OPD PEP	1	1,500	-1,499	-99.93%
2	6731 OPD GI	494	3,300	-2,806	-85.03%
3	6738 GILROY MENTAL HEALTH	2,181	5,860	-3,679	-62.78%
4	6737 EAST VALLEY MENTAL HEALTH	8,938	23,440	-14,502	-61.87%
5	6717 MHSA URGENT CARE	2,782	7,000	-4,218	-60.26%
6	6711 MH SPECIALTY ASSESSMENT CENTER	966	2,200	-1,234	-56.09%
7	6623 CHRONIC PERITONEAL DIALYSIS	488	1,000	-512	-51.20%
8	6736 SUNNYVALE MENTAL HEALTH	10,381	17,580	-7,199	-40.95%
9	6741 VSC INFUSION CENTER	8,008	12,750	-4,742	-37.19%
10	6881 HOMELESS HEALTH CARE ACCESS	4,106	6,000	-1,894	-31.57%
11	6890 CHILD PROTECTION	105	150	-45	-30.00%
12	6662 VHC BASCOM OB/GYN	44,777	58,000	-13,223	-22.80%
13	6972 VSC DM/METAB/ENDO	10,174	13,100	-2,926	-22.34%
14	6678 VSC RESPIRATORY MEDICINE	5,052	6,400	-1,348	-21.06%
15	6653 VHC MOORPARK PRIMARY CARE	43,518	54,000	-10,482	-19.41%
16	6735 OPD URODYNAMICS	3,684	4,500	-816	-18.13%
17	6674 VSC ENT	9,877	12,000	-2,123	-17.69%
18	6640 VHC EAST VALLEY	99,225	115,000	-15,775	-13.72%
19	6677 VSC OPHTHALMOLOGY	18,996	22,000	-3,004	-13.65%
20	6648 VHC SILVER CREEK	8,269	9,500	-1,231	-12.96%
21	6661 VHC MOORPARK URGENT CARE	16,118	18,000	-1,882	-10.46%
22	6688 VSC REHAB	3,235	3,600	-365	-10.14%
23	6666 VHC TULLY	64,882	72,200	-7,318	-10.14%
24	6579 LAB - PULMONARY FUNCTION	451	500	-49	-9.80%
25	6883 VSC DISCHARGE CLINIC	1,379	1,500	-121	-8.07%
26	6679 VSC SURGERY	19,114	20,765	-1,651	-7.95%
27	6966 VSC CARDIO VASCULAR	10,327	11,000	-673	-6.12%
28	6663 VSC EMPLOYEE HEALTH	9,486	10,000	-514	-5.14%
29	6695 VHC GILROY	34,631	36,167	-1,536	-4.25%
30	6963 VSC RHEUMA/DERMA	21,628	22,400	-772	-3.45%
31	6607 VSC RADIATION THERAPY	10,221	10,585	-364	-3.44%
32	6684 DENTAL	27,820	28,000	-180	-0.64%
	Subtotal of Clinics Performing Below Budget	501,314	609,997	-108,683	-17.82%
1	6656 MPC DIABETES AND METABOLISM CENTER	1,913	1,900	13	0.68%
2	6659 VHC BASCOM PEDIATRICS	81,684	80,000	1,684	2.11%
3	6962 VSC GASTRO/TLGY/GASTRO SPEC	11,896	11,536	360	3.12%
4	6634 EMERGENCY - TREATMENT	64,738	62,650	2,088	3.33%
5	6705 VHC SUNNYVALE	20,053	18,003	2,050	11.39%
6	6686 VSC ORTHOPEDIC/ PODIATRY	21,101	18,940	2,161	11.41%
7	6676 RENAL CENTER - NEPHRO CLINIC	7,136	6,400	736	11.50%
8	6624 CHRONIC HEMODIALYSIS	3,409	3,000	409	13.63%
9	6671 VHC BASCOM PEP	16,763	14,500	2,263	15.61%
10	6973 VSC NEUROLOGY/NEUROSCIENCE	7,221	5,578	1,643	29.45%
11	6882 Homeless Shelter	3,020	2,000	1,020	51.00%
12	6608 VSC ONCOLOGY CLINIC	9,854	6,000	3,854	64.23%
13	6690 EXPRESS CARE	51,750	30,850	20,900	67.75%
	Subtotal of Clinics Performing Above Budget				
	Subtotal SCVMC	300,538	261,357	39,181	14.99%
1	6591 ELECTROENCEPHALOGRAPH (EEG)	32	0	32	
2	6597 RADIOLOGY - SPECIAL PROCEDURES	10	0	10	
3	6621 ACUTE DIALYSIS	360	0	360	
4	6643 VHC SAN MARTIN	-1	0	-1	
5	6660 MPC Neuro	19	0	19	
6	6675 VHC FAIROAKS	2	0	2	
7	6712 OPD ALLERGY	0	1,500	-1,500	
8	6882 Homeless Shelter -old	3,655	0	3,655	
9	6961 VSC EEG/EMG	17	0	17	
10	6971 VSC SOUTH BAY GENETICS	753	0	753	
11	6975 VSC PRE-OP TESTING	6,472	0	6,472	
	Subtotal CCs with 0 Act or Bud	11,319	1,500	9,819	
	Total SCVMC	813,171	872,854	-59,683	-6.84%

**ANALYSIS OF FY 2010-11 ACTUAL CLINIC VISITS VERSUS BUDGET
IN CLINIC VARIANCE ORDER**

Count	Clinic	Number of Clinic Visits			Variance %
		FY 2010-11 Jul to Oct	Budget	Variance	
1	6731 OPD GI	17	1,113	-1,096	-98.47%
2	6623 CHRONIC PERITONEAL DIALYSIS	45	337	-292	-86.66%
3	6711 MH SPECIALTY ASSESSMENT CENTER	223	742	-519	-69.95%
4	6648 VHC SILVER CREEK	724	2,158	-1,434	-66.44%
5	6638 VHC MILPITAS	2,573	6,852	-4,279	-62.45%
6	6971 VSC SOUTH BAY GENETICS	284	675	-391	-57.91%
7	6738 GILROY MENTAL HEALTH	1,013	1,977	-964	-48.76%
8	6737 EAST VALLEY MENTAL HEALTH	4,491	7,907	-3,416	-43.21%
9	6736 SUNNYVALE MENTAL HEALTH	3,410	5,931	-2,521	-42.50%
10	6653 VHC MOORPARK PRIMARY CARE	11,972	20,030	-8,058	-40.23%
11	6741 VSC INFUSION CENTER	2,600	4,301	-1,701	-39.55%
12	6975 VSC PRE-OP TESTING	1,957	3,036	-1,079	-35.54%
13	6666 VHC TULLY	18,510	26,043	-7,533	-28.93%
14	6678 VSC RESPIRATORY MEDICINE	1,536	2,159	-623	-28.86%
15	6579 LAB - PULMONARY FUNCTION	125	169	-44	-25.89%
16	6695 VHC GILROY	9,544	12,201	-2,657	-21.78%
17	6607 VSC RADIATION THERAPY	3,158	3,993	-835	-20.90%
18	6679 VSC SURGERY	6,756	8,523	-1,767	-20.73%
19	6640 VHC EAST VALLEY	32,392	39,133	-6,741	-17.22%
20	6677 VSC OPHTHALMOLOGY	6,154	7,422	-1,268	-17.08%
21	6735 OPD URODYNAMICS	1,261	1,518	-257	-16.93%
22	6659 VHC BASCOM PEDIATRICS	24,555	29,349	-4,794	-16.34%
23	6676 RENAL CENTER - NEPHRO CLINIC	2,724	3,171	-447	-14.10%
24	6674 VSC ENT	3,508	4,048	-540	-13.34%
25	6972 VSC DM/METAB/ENDO	4,108	4,732	-624	-13.19%
26	6634 EMERGENCY - TREATMENT	21,670	24,937	-3,267	-13.10%
27	6662 VHC BASCOM OB/GYN	13,491	15,451	-1,960	-12.68%
28	6966 VSC CARDIO VASCULAR	3,302	3,711	-409	-11.02%
29	6608 VSC ONCOLOGY CLINIC	3,180	3,373	-193	-5.74%
30	6688 VSC REHAB	1,156	1,214	-58	-4.81%
31	6684 DENTAL	7,789	8,147	-358	-4.39%
32	6962 VSC GASTROTLGY/GASTRO SPEC	4,391	4,575	-184	-4.02%
33	6686 VSC ORTHOPEDIC/ PODIATRY	7,654	7,907	-253	-3.21%
34	6890 CHILD PROTECTION	49	51	-2	-3.17%
35	6973 VSC NEUROLOGY/NEUROSCIENCE	2,718	2,783	-65	-2.34%
36	6661 VHC MOORPARK URGENT CARE	6,018	6,099	-81	-1.33%
	Subtotal of Low-performing Clinics	215,058	275,769	-60,711	-22.02%
1	6963 VSC RHEUMA/DERMA	8,023	7,557	466	6.17%
2	6705 VHC SUNNYVALE	6,576	6,073	503	8.28%
3	6671 VHC BASCOM PEP	5,854	5,398	456	8.46%
4	6690 EXPRESS CARE	18,280	15,586	2,694	17.29%
5	6883 VSC DISCHARGE CLINIC	638	506	132	26.08%
6	6663 VSC EMPLOYEE HEALTH	4,490	3,373	1,117	33.10%
7	6882 Homeless Shelter	913	675	238	35.32%
8	6624 CHRONIC HEMODIALYSIS	1,839	1,012	827	81.71%
9	6881 HOMELESS HEALTH CARE ACCESS	3,922	2,024	1,898	93.77%
10	6656 MPC DIABETES AND METABOLISM CENTER	857	328	529	161.19%
	Subtotal of High-performing Clinics	51,392	42,532	8,860	20.83%
	Subtotal SCVMC	266,450	318,301	-51,851	-16.29%
1	6591 ELECTROENCEPHALOGRAPH (EEG)	0	17	-17	
2	6597 RADIOLOGY - SPECIAL PROCEDURES	0	17	-17	
3	6621 ACUTE DIALYSIS	266	0	266	
4	6643 VHC SAN MARTIN	1	0	1	
5	6675 VHC FAIROAKS	3	0	3	
6	6717 MHSA URGENT CARE	26	0	26	
7	6961 VSC EEG/EMG	20	0	20	
	Subtotal CCs with 0 Act or Bud	316	34	282	836.71%
	Total SCVMC	266,766	318,335	-51,569	-16.20%

Analysis of FY 2009-10 P41 MD Staffing

Actual P41 MD Staffing by Month

Cost Center	Jul	Aug	Sep	OCT	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2009-10 Avg
6561 ANESTHESIOLOGY	25.53	26.36	27.45	27.17	27.43	27.46	27.88	28.17	27.31	27.42	27.04	26.60	27.15
6580 LAB - PHYSICIAN SERVICES	6.77	7.29	7.38	7.35	7.35	7.61	6.32	7.73	6.06	6.23	6.67	6.18	6.91
6593 DIAGNOSTIC IMAGING PHYSICIANS	17.69	17.95	17.18	17.51	17.25	17.21	17.46	17.97	17.00	17.42	18.33	17.76	17.56
6609 MED STAFF - RADIATION THERAPY	2.00	2.94	3.00	3.00	3.00	2.01	2.00	2.00	2.00	2.00	1.94	2.07	2.33
6642 MED STAFF - EAST VALLEY CLINIC	22.83	22.96	23.26	22.73	22.99	22.57	22.48	22.84	22.80	22.70	22.70	22.58	22.79
6654 MED STAFF - SILVERCREEK CLINIC	2.35	2.30	3.82	3.50	3.50	3.67	3.57	3.48	3.38	3.40	3.29	3.51	3.31
6701 MED STAFF - VHC GILROY	6.53	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.39	6.66	6.38
6706 MED STAFF - VHC SUNNYVALE	3.03	3.00	3.00	3.01	3.00	3.00	3.00	3.00	3.00	3.00	2.99	3.29	3.03
6761 MED STAFF - TULLY CLINIC	15.09	15.19	15.35	15.11	14.48	15.42	15.46	15.14	15.02	14.50	14.35	14.46	14.96
6893 MED STAFF - DEPT OF ORTHO SURGERY	6.23	5.97	6.00	5.34	5.50	5.50	5.50	6.00	6.00	7.10	6.77	6.95	6.07
6895 MED STAFF - DEPT OF SURGERY	26.30	28.01	29.33	30.23	31.05	31.33	31.88	31.81	31.31	31.68	30.37	29.79	30.26
6897 MED STAFF - DEPT OF MEDICINE	78.93	86.47	82.37	83.83	84.69	85.14	87.19	86.28	89.19	86.28	85.25	87.55	85.26
6898 MED STAFF - DEPT OF PEDIATRICS	52.71	53.45	54.41	54.23	54.69	55.76	53.91	57.33	56.39	55.45	54.84	54.13	54.77
6899 MED STAFF - DEPT OF OB/GYN	31.71	33.00	31.36	33.75	33.42	33.28	33.10	33.44	33.21	32.67	32.66	31.61	32.77
6900 MED STAFF - DEPT OF REHAB	9.50	10.31	10.60	10.60	10.60	10.12	10.00	10.00	10.13	10.24	9.91	9.61	10.14
6902 MED STAFF - DEPT OF NEUROLOGY	3.00	3.49	4.23	4.07	4.22	4.13	4.15	4.14	4.06	4.15	3.99	4.27	3.99
SCVMC Total	323.22	338.05	340.46	342.97	344.17	344.61	344.63	350.10	348.06	344.63	340.84	340.31	341.84

Budgeted P41 MD Staffing by Month

Cost Center	Jul	Aug	Sep	OCT	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2009-10 Avg
6561 ANESTHESIOLOGY	21.65	21.65	21.65	21.65	21.65	21.65	21.65	21.65	21.65	21.65	21.65	20.38	21.54
6580 LAB - PHYSICIAN SERVICES	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
6593 DIAGNOSTIC IMAGING PHYSICIANS	18.50	18.50	18.50	17.20	17.20	17.20	17.20	17.20	17.20	17.20	17.20	14.10	17.27
6609 MED STAFF - RADIATION THERAPY	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
6642 MED STAFF - EAST VALLEY CLINIC	22.30	22.30	22.30	21.30	21.30	21.30	21.30	21.30	21.30	21.30	21.30	22.80	21.68
6654 MED STAFF - SILVERCREEK CLINIC	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	3.40	1.93
6701 MED STAFF - VHC GILROY	9.00	9.00	9.00	9.40	9.40	9.40	9.40	9.40	9.40	9.40	9.40	6.60	9.07
6706 MED STAFF - VHC SUNNYVALE	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6761 MED STAFF - TULLY CLINIC	17.20	17.20	17.20	17.20	17.20	17.20	16.20	16.20	16.20	16.20	16.20	15.50	16.64
6893 MED STAFF - DEPT OF ORTHO SURGERY	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.92
6895 MED STAFF - DEPT OF SURGERY	28.55	28.55	28.55	27.55	27.55	27.55	27.55	27.55	27.55	27.55	27.55	29.82	27.99
6897 MED STAFF - DEPT OF MEDICINE	77.11	77.11	77.11	79.34	79.34	79.34	80.34	80.34	80.34	80.34	80.34	77.43	79.04
6898 MED STAFF - DEPT OF PEDIATRICS	47.03	47.03	47.03	44.70	44.70	44.70	44.70	44.70	44.70	44.70	44.70	50.00	45.72
6899 MED STAFF - DEPT OF OB/GYN	25.90	25.90	25.90	29.90	29.90	29.90	29.90	29.90	29.90	29.90	29.90	30.70	28.97
6900 MED STAFF - DEPT OF REHAB	9.30	9.30	9.30	9.30	9.30	9.30	9.30	9.30	9.30	9.30	9.30	10.00	9.36
6902 MED STAFF - DEPT OF NEUROLOGY	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
SCVMC Total	316.24	314.24	314.24	315.91									

Surplus/Deficit -6.98 -21.81 -24.22 -26.73 -27.93 -28.37 -28.39 -33.86 -31.82 -28.39 -26.60 -26.07 -25.93

Analysis of FY 2010-11 P41 MD Staffing

Actual P41 MD Staffing by Month

Cost Center	Jul	Aug	Sep	OCT	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2010-11 Avg
6561 ANESTHESIOLOGY	28.56	28.09	25.65	24.96	25.36	25.59							26.37
6580 LAB - PHYSICIAN SERVICES	6.58	7.43	7.34	6.57	6.45	6.51							6.81
6593 DIAGNOSTIC IMAGING PHYSICIANS	17.02	17.34	15.99	17.21	15.38	17.03							16.66
6609 MED STAFF - RADIATION THERAPY	2.00	2.00	2.00	2.00	2.00	2.00							2.00
6642 MED STAFF - EAST VALLEY CLINIC	22.70	22.76	22.86	21.95	21.42	22.06							22.29
6654 MED STAFF - SILVERCREEK CLINIC	3.82	3.52	3.34	3.40	3.40	3.40							3.48
6701 MED STAFF - VHC GILROY	6.60	6.60	6.60	6.60	6.60	6.51							6.59
6706 MED STAFF - VHC SUNNYVALE	2.79	2.94	3.00	3.00	3.00	3.00							2.95
6720 MED STAFF - VHC MILPITAS													
6761 MED STAFF - TULLY CLINIC	14.65	14.31	14.17	14.19	13.77	13.75							14.14
6893 MED STAFF - DEPT OF ORTHO SURGERY	5.95	6.00	5.28	4.75	5.00	5.00							5.33
6895 MED STAFF - DEPT OF SURGERY	29.84	31.50	31.16	29.40	29.11	32.40							30.57
6897 MED STAFF - DEPT OF MEDICINE	83.84	86.19	83.87	90.31	93.89	90.98							88.18
6898 MED STAFF - DEPT OF PEDIATRICS	54.77	58.41	54.32	57.23	58.07	55.96							56.46
6899 MED STAFF - DEPT OF OB/GYN	30.62	31.89	30.62	30.17	31.04	31.09							30.91
6900 MED STAFF - DEPT OF REHAB	10.14	10.31	10.35	9.71	8.74	9.20							9.74
6902 MED STAFF - DEPT OF NEUROLOGY	4.15	4.13	4.13	4.06	4.18	4.03							4.11
SCVMC Total	324.02	333.41	320.68	325.51	327.41	328.51							326.59

Budgeted P41 MD Staffing by Month

Cost Center	Jul	Aug	Sep	OCT	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2010-11 Jul-Dec Average
6561 ANESTHESIOLOGY	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38	20.38
6580 LAB - PHYSICIAN SERVICES	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
6593 DIAGNOSTIC IMAGING PHYSICIANS	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10	14.10
6609 MED STAFF - RADIATION THERAPY	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
6642 MED STAFF - EAST VALLEY CLINIC	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80	22.80
6654 MED STAFF - SILVERCREEK CLINIC	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
6701 MED STAFF - VHC GILROY	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60
6706 MED STAFF - VHC SUNNYVALE	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6720 MED STAFF - VHC MILPITAS	5.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50
6761 MED STAFF - TULLY CLINIC	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50
6893 MED STAFF - DEPT OF ORTHO SURGERY	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
6895 MED STAFF - DEPT OF SURGERY	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83	29.83
6897 MED STAFF - DEPT OF MEDICINE	77.03	79.03	80.03	80.03	80.03	80.03	83.03	83.03	83.03	83.03	83.03	83.03	79.36
6898 MED STAFF - DEPT OF PEDIATRICS	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
6899 MED STAFF - DEPT OF OB/GYN	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70	29.70
6900 MED STAFF - DEPT OF REHAB	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
6902 MED STAFF - DEPT OF NEUROLOGY	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
SCVMC Total	307.34	312.34	313.34	313.34	313.34	313.34	316.34	316.34	316.34	316.34	316.34	316.34	312.17

-14.42

-15.17

-14.07

-12.17

-7.34

-21.07

-16.68

Surplus/Deficit

Section 4. Supply Usage and Charge Capture

Background

- In FY 2009-10, the Santa Clara Valley Health and Hospital System (SCVHHS) spent a total of \$117.8 million on items that were purchased through its ordering and inventory management system. This figure includes \$73.4 million that was spent on goods and services, of which more than \$41.3 million was spent on frequently used or “catalog” medical and surgical supplies, such as inexpensive gloves, syringes and gauze and expensive orthopedic and cardiac implants and stents. The remaining \$32.1 million was spent on other “non-catalog” items and services, such as one-time supply purchases and payments to the Red Cross for blood services.

Problem

- For medical and surgical supplies costing more than \$10, SCVHHS uses the “peel-and-stick” or “bingo card” method to capture most hospital charges, but this method is antiquated and prone to errors. While supplies costing less than \$10 each are incorporated in room rates, their usage is not carefully tracked, and SCVHHS has not studied whether room rates fully capture these costs. SCVHHS also has inadequate controls in place for monitoring the storage and distribution of supplies. For example, staff dispenses durable medical equipment (DME) and other supplies to inpatients, outpatients, and discharged patients that are frequently not charged because SCVHHS does not have a DME license.

Adverse Effect

- The antiquated peel-and-stick supply charge capture system results in thousands of supplies and millions of dollars going uncharged annually. For eight unique supplies purchased in FY 2009-10, 6,837 items never got charged, resulting in \$2.6 million in lost charges and an undetermined amount of lost reimbursements. In FY 2009-10, 92 percent of walkers and walker wheels that were dispensed to patients were also not charged. The potential lost charges for the 2,136 uncharged walkers and wheels total \$565,286. Additionally, the lack of controls in the storage, handling and distribution of supplies may result in lost and wasted supplies, as well as decreased infection control and reduced quality of care for patients.

Recommendations

- SCVHHS should adopt an automated supply charge capture system, such as bar-coding, to improve the efficiency and management of supply consumption, maximize charge capture, and allow automatic recording in medical records. Until SCVHHS obtains a DME license, it should partner with a DME vendor to install a DME vending machine at the hospital or refer discharged patients to licensed DME retailers located near the hospital. Finally, SCVHHS should develop uniform policies and procedures for calculating and capturing supply charges and strengthening controls over supplies. Implementing these recommendations would result in significant ongoing reduced costs and increased revenues.

Medical/Surgical Supply Purchases

The Santa Clara Valley Health and Hospital System (SCVHHS) spent a total of \$117.8 million on items that were purchased through the Pathways Medical Management (PMM) ordering and inventory management system in FY 2009-10. This figure includes approximately \$73.4 million spent on goods and services, with the remaining \$44.4 million spent on equipment rentals, linen and other contracted services, utilities and other items. Of the \$73.4 million spent on goods and services, SCVHHS spent \$41.3 on frequently used or “catalog” items including basic supplies such as gloves, syringes, gauze and catheters used by providers in inpatient hospital units and outpatient primary care and specialty clinics, surgical supplies such as drapes and sutures, and expensive orthopedic and cardiac implants and stents used in operating rooms and cardiac catheterization labs. SCVHHS also purchased live tissue implants, radiology supplies, and durable medical equipment (DME), such as walkers and crutches, as well as diapers, batteries, and toothbrushes. The remaining \$32.1 million was spent on other “non-catalog” items and services, such as one-time supply purchases and payments to the Red Cross for blood services.

The Resource Management Department is responsible for purchasing and distributing supplies throughout SCVHHS. According to documents provided by Resource Management, the Central Supply Unit within the department provides support for approximately 500 departments within the health and hospital system including 56 “par-level” inventory locations that it services daily. “Par level” refers to the optimal amount of supply inventory for each item in the bins on the supply carts in hospital units and other locations throughout VMC. Central Supply must constantly monitor the number or level of items in each bin to make sure the levels do not drop below the minimum or above the maximum levels that were determined for each item in each location. Central Supply is responsible for ordering, warehousing, and distributing most supplies that are ordered in bulk; performing daily par level inventory counts and monitoring and adjusting par levels; and maintaining inventory control. In addition to supply items that originate in Central Supply, some items are “non-catalog items” that are ordered directly by nursing units and other cost centers throughout SCVHHS, and are delivered directly to these units. Physician preference items that are not on contract or that cost more than \$5,000 are handled by the Procurement Department.

Resource Management uses PMM to automate the ordering and inventory management of supplies. Approximately 40,000 items are available for purchase in PMM, and there are approximately 6,900 vendors. If a medical provider at the hospital or an outpatient clinic wants to order a supply from a contracted vendor, he or she submits a requisition into the PMM system. Once the cost center manager approves the request, the purchase order (PO) gets sent automatically to the vendor. PMM is linked to Professional Hospital Supply (PHS), a “just in time” (JIT) medical/surgical supply distributor. The JIT system allows staff to keep small inventories on hand, knowing that if PHS receives a PO by 3:00 p.m., the product will be delivered to the hospital by midnight the same day. PMM handled 515,000 requisition lines on 49,000 supply requisitions in FY 2009-10.

Supply Charge Capture

SCVHHS has instituted at least three different supply charge entry procedures for capturing supply charges:

- (1) The “peel-and-stick” or “bingo card” method, which is used at the hospital, with the exception of the operating room, and at the Central Supply outpatient window;
- (2) A charge ticket system, which is used at outpatient clinics; and
- (3) A “pick list” and charge ticket system, which is used in the operating room.

Hospital: Peel-and-Stick or Bingo Card Method

Approximately 1,200 unique supplies are stored in the Central Supply storeroom at any one time. Of these 1,200 supplies, about 300 cost more than \$10 each and are charged directly to patients. The remaining 900 supplies that cost less than \$10 each are not charged directly to patients.

The Peel-and-Stick Process

Supplies that cost more than \$10 each are affixed with a yellow sticker identifying the item number. Professional Hospital Supply (PHS), the main vendor, is supposed to deliver these items with the yellow stickers already pre-printed and affixed to the items. Central Supply staff check items as they are unpacked and placed in the storeroom bins, and if they find items that are missing the yellow stickers, they create stickers for these items. Audit staff randomly sampled 25 bins in the Central Supply storeroom. Each bin contained approximately 20 items that cost more than \$10 each, and only three items in all 25 bins did not have stickers attached. Items that are delivered directly to hospital units may also be missing stickers. In some cases, when a pre-printed sticker is missing, a nurse will hand-write the item number on a sticker, but it is not clear if this is a regular practice.

When a nurse or provider uses a supply that costs more than \$10, he or she is supposed to pull the yellow sticker off of the item and place it on a “bingo card” with the patient’s billing information. Audit staff observed different methods for collecting these cards. In some cases, the cards were collected in a battered envelope taped to a supply cart on the unit. In other cases, the cards were kept at the nurses’ station. In situations where urgent care is required, nurses may peel the stickers and stick them to a board in the patient’s room, and try to remember to place them on the patient’s card later. Some units require more stringent procedures to protect patients’ privacy, such as having the patient information printed on the reverse side of the card.

Bingo Card Collection and Charge Entry

The graveyard shift stock clerks from Central Supply collect the bingo cards from each hospital unit when they are checking par-level inventories, and then another Central

Supply employee brings the cards each morning to the Resource Management employee responsible for charge entry. Staff reported that bingo cards are supposed to be collected for charge entry every day. Although no written policy was produced, Resource Management provided an undated document entitled “HHS Billing and Special Billing Process” that summarized the bingo card system in one bullet point: “Departments will place a sticker on bingo card that is sent down to central supply. Central supply will bill the patient for the items used” (Attachment 4.1).

On the day that audit staff observed this process, a total of 122 cards had been collected and delivered for eight hospital units, but cards from the remaining 12 units had not been collected or delivered. Audit staff was told that this was not unusual, and cards were typically delivered from units every other day. If the charge entry employee notices that cards have not been delivered from some units after about two days, she will report this to the stock clerks, and they will deliver the bingo cards the next morning. Charge entry staff reported that approximately five bingo cards per day are delivered several days after the patient has already been discharged. The source of this problem is unclear; the nurse may be failing to complete the bingo card and put it in the appropriate place, or the stock clerk may have had difficulty finding where the cards were collected and stored. Entering incorrect service dates for charges or entering charges late could have financial implications. Delayed billing results in delayed reimbursement. Furthermore, charge dates for supplies that do not match charge dates for the related procedure or hospitalization could cause coding errors that might result in penalties or fees.

Only one employee is permanently assigned to charge entry for all inpatient supply charges, and she also enters supply charges on bingo cards received from the Central Supply storeroom, six outpatient clinics, the Emergency Department, Express Care and Therapy Services. Most other supply charges from outpatient clinics are entered by different employees in Patient Business Services and a different process is followed, as will be described. Charges are not entered on weekends when she does not work, and may not be charged if she is away for vacation or sick leave. Two other employees have been trained and help occasionally.

Impact on Cost Recovery

Audit staff examined several dozen bingo cards and the charge entry process, and observed many situations that could negatively impact the full recovery of costs. For example, many cards had stickers placed on both the front and back, and many cards had two stickers stuck on top of one another. There were many hand-written stickers. Most cards did not have a date written on them. In these cases, the employee assumed the date of service was the day before the card was delivered. Copies of bingo cards can be viewed at Attachment 4.2. Normally, the billing system automatically finds the corresponding charge description master (CDM) number and enters the charge for each supply item. In one case when the billing system did not accept the item number entered, the employee learned upon further investigation that the cost for the item had dropped to \$9.57 and was no longer chargeable since it was less than \$10. SCVMC Materials Management Policy/Procedure 10.3 (Attachment 4.3) provides that supplies

that are chargeable to patients are “generally considered to be those that will have a unit cost of \$10 or more.” This policy document provided by the Resource Management Department has an effective date of 1-90; no updated or revised policy was provided.

The charge for each supply listed on the CDM is calculated based on a formula intended to capture direct as well as indirect costs. Only supplies costing more than \$10 are listed on the CDM, and items costing less than \$10 each are incorporated in room rates. Resource Management staff presented an earlier and simpler version of the policy and procedure for establishing supply charges with an effective date of 1-90. However, audit staff were not presented with any details on the basis of the current methodology used to set charges for supplies.

Outpatient Clinics: Charge Ticket Method

Supplies are also distributed to and used in the outpatient clinics. Supplies that cost less than \$10 each are not charged directly to the patients; however, in contrast to supplies used at the hospital, the clinics do not charge room rates, preventing clinics from recovering the costs of these supplies. Most items that cost more than \$10 are included on pre-printed charge tickets designed for each clinic. Supply items that are commonly used for a particular clinic are already printed on the form, and the provider or medical assistant checks off the box next to the item. If a provider uses a supply item that is not already included on the charge ticket, he or she is supposed to hand-write the item name and number onto the charge ticket. The charge tickets are then delivered to an employee in Patient Business Services who enters the charges into the billing system. The charges for supplies in the clinics are calculated based on the same formula used in the hospital.

Audit staff was initially told that the Patient Business Services (PBS) employees assigned to outpatient charge entry handled all supply charges emanating from all clinics using the charge ticket method. However, as described above, audit staff observed that some clinics also submit bingo cards with yellow stickers for supplies classified as durable medical equipment. When asked about this, PBS staff was unaware that the bingo card system was also being used.

Operating Room: Pick Ticket Method

As a better example of achieving full cost recovery, the operating room charges for all supplies regardless of their individual cost, including items that cost less than \$10. All supplies are also subject to the formula used at the hospital and outpatient clinics.

The operating room (OR) uses the “pick ticket” method to capture supply charges. Under this system, the surgeon fills out a pick ticket for each procedure, which lets the OR product management staff know which supplies to pull and put on carts in the OR for a particular procedure. These supplies are usually pre-printed on the pick-ticket, or may be added if a special item was ordered. An Operating Room Clerk inputs the information from the pick ticket into the Surgical Information System (SIS) that handles surgical case scheduling and patient charging. The SIS includes two parts: a journaling

component that captures serial numbers for implants and human tissue, and a billing component. Anything other than professional fees, including supplies, implants, anesthesia and room time, is entered and drops down to the Rules Based Charging (RBC) system, which is part of SIS. These charges then automatically go into the Invision billing system. The pick ticket is entered the day before or the same day of the surgery. There are approximately 35 scheduled OR cases per day, and approximately 12 add-ons (for trauma and emergencies).

Problems with Supply Charge Capture

The “peel-and-stick” or “bingo card” method of supply charge capture is antiquated, prone to errors, and should be replaced with a more efficient system. This method makes it more difficult to accurately track most supply usage. Audit staff was not provided written policies and procedures regarding supply charge entry, and there appears to be some confusion about proper procedures. Some clinics use both the bingo card method and the charge ticket method, although staff who work on supply charge entry were unaware of this fact. Although the charge entry employee responsible for entering bingo card charges is very experienced and dedicated to her work, the system itself is flawed and affords ample opportunities for human error at many stages, including:

- Failure to put a yellow sticker on an item;
- Failure to pull the yellow sticker and place it on a patient’s bingo card while focusing on essential and urgent patient care;
- Failure to collect, pick up, or deliver the bingo card to the charge entry employee in a timely manner;
- Failure to correctly record the date of service;
- Inability to read the item number on stickers that have been placed on top of one another or on the back of the card;
- Failure to accurately enter the charge on each sticker for each patient;
- Failure to update the Charge Description Master with any price changes;
- Failure to properly mark-up the item; and
- Errors related to the interplay of several different charge capture systems and several different electronic billing systems.

This is the second time that audit staff has raised problems with the peel-and-stick or bingo card method. The first time was during the 2000 audit of Santa Clara Valley Medical Center. It should be noted, however, that although this method is archaic and fraught with potential errors, it is still in use at many hospitals, including three other county medical centers in California that responded to our survey - San Mateo Medical

Center, Riverside County Regional Medical Center, and San Bernadino County Arrowhead Regional Medical Center. However, two of the three medical centers (San Mateo and Riverside) reported charging for all supplies, not only supplies that cost more than \$10.

SCVHHS should consider replacing the “peel-and-stick” or “bingo card” system with an automated bar-coding or Pyxis system that would simultaneously manage supply inventories, handle supply charge capture, and track supply consumption. At least two local medical centers (Stanford Hospital and El Camino Hospital) use one or both of these technologies for tracking supplies instead of the bingo card method. In medical centers where a bar-coding system is used, nurses swipe the supply under a bar-code reader before using it. This system immediately captures the item number and the charge is entered into the patient’s record, obviating the need for charge entry personnel. It ensures accurate entry of the correct charge, and eliminates the many possibilities for human error throughout the chain. It also increases the accuracy of information stored in the medical record, and can be coordinated with an electronic health record system. The Pyxis system is a locked cabinet in which the supplies are stored. The nurse or provider must key in the patient’s identification or medical record number along with his or her own identifying information as well as the number of particular supplies needed. The Pyxis system automatically keeps track of inventory, runs reports, orders new supplies when the par levels get low, charges the patient, and tracks usage by unit and provider. The system could ultimately be integrated with the electronic medical record, streamlining medical record documentation and retrieval and assuring accurate coding and billing.

The most compelling advantages of adopting a more comprehensive technology for managing the inventory, distribution, and charging for supplies are:

- **Accuracy:** These technologies increase accuracy by reducing the likelihood of human errors from manual entry.
- **Ease of use:** These technologies are easy to use as long as the appropriate hardware and software components are in place to maximize the process of automatic data collection. SCVMC staff is already using these technologies for prescription medications, patient identification bands, and other purposes.
- **Timely feedback:** These technologies promote timely feedback of data captured in real time, enabling decisions to be made from current information.
- **Improved tracking:** Items can be tracked throughout the supply chain and clinical workflow, enabling management to track a supply to a particular patient and a particular clinician who used the product with the patient.
- **Simplified medical record keeping:** An automated system could be easily linked to an electronic medical record (EMR), so when a supply is used, it would be documented in the EMR and the charge would be automatically captured and transmitted to the patient bill.

- **Validation:** These technologies could assist medical staff in decreasing errors and waste, ensuring quality, and providing the necessary documentation to meet Joint Commission and insurance company requirements.
- **Improved productivity:** These technologies automate many manual activities and tasks, enabling limited resources to be utilized in other ways to increase efficiencies, and allowing SCVMC to reduce staffing levels as positions become vacant through attrition.
- **Increased reimbursements:** By streamlining and increasing the rate of supply charge capture, these technologies can increase the opportunities to collect reimbursements and revenue.

A bar-coding system is already required for hospital administered drugs, biologics and blood products, and the Pyxis system is already being used for prescription medications in hospital units, so nurses at SCVHHS are familiar with using these systems. Central Supply also uses bar coding for supply inventory, so all supplies are labeled.

SCVHHS should quantify the costs and benefits of replacing the “peel-and-stick” or “bingo card” system with a bar-coding system. The initial installation of a bar-coding system would require the purchase of several bar-code readers for every unit and scanning equipment, as well as programming expenses. Based on a quote prepared by a major vendor used by SCVHHS, the cost would be approximately \$90,800 for the software, \$151,700 for the hardware (including carts, cart touch-screens, scanners, computers, and necessary licenses), \$14,100 for professional services (including implementation and training), and \$11,500 for technology services, for a total initial cost of approximately \$268,100. The grand total expense in the first year would be approximately \$284,400, which includes an ongoing annual cost of \$16,300 that would be charged for software maintenance. In comparison, the Pyxis system, which includes both software and hardware, is leased for about \$250 per month for each cabinet. SCVMC would likely require more than 150 cabinets at an estimated cost of at least \$450,000 annually. Resource Management staff indicated that a bar-coding system would pay for itself if an additional 10 percent in cost recovery were realized after implementation of the new system, and audit staff believes the long-term benefits would far outweigh the costs.

If the “peel-and-stick” or “bingo card” charge capture system is retained, SCVHHS should ensure that all supply charges are entered daily by requiring medical staff to put dates on every card, requiring Central Supply staff to pick up all cards from all departments, and increasing the number of staff trained and qualified to complete charge entry duties.

Tracking Supply Consumption

The PMM database system inventories and accounts for every supply item that is purchased through PMM across SCVHHS, and the Resource Management Department produces reports on the inventory and cost of all supplies purchased through the PMM

system. However, there does not seem to be comparable data readily available regarding supply charges or reimbursements. SCVHHS nurse managers reported that they would like information on supply charges to better understand and manage supply use by nurses and supply consumption by patients in order to manage dwindling budgets and institute better controls where needed, but have been unable to get this information. Resource Management staff also reported a need to understand the charge and reimbursement side to inform and facilitate better purchasing decisions. Many departments reported a “disconnect” with the Finance Department when seeking relevant financial data in order to make budgetary and/or management decisions.

Although supplies are one of the largest expenses incurred by SCVHHS, audit staff found that SCVHHS did not accurately track supply consumption and did not provide basic data or statistics on supply usage by cost center, month or year. In addition, SCVHHS did not provide audit staff with any reports that compare the number of items purchased and charged. While nurse managers receive monthly PMM cost reports showing the number and cost of items purchased, there were no regular reports provided that show the actual amounts consumed and charged per unit as compared to what was purchased. To better understand this relationship, audit staff requested data from Resource Management on supplies purchased for FY 2009-10, and from Accounting and Information Services on supplies charged for FY 2009-10. To simplify the analysis, Resource Management created a list of the top 125 supplies for which SCVHHS spent the most per item. From this list, audit staff eliminated 17 items that would not be considered medical supplies, such as computer equipment and cleaning supplies. A total of \$9,703,861 was spent for the purchase of the remaining top 108 unique medical supply items. Of this total, \$5,043,040 was spent on 60 unique chargeable medical supplies and \$4,660,821 was spent on 48 unique items that cost less than \$10 per item and were not charged, in most instances.

Although faced with limited time and difficulty matching items from the two data sets, audit staff were able to compare eight unique chargeable supplies to track how many items that were purchased had actually been charged to patients. As is shown in Table 4.1, while 15,763 chargeable items were purchased, only 8,926 items (57 percent) were actually charged directly to patients. This translates to \$2.6 million of potential charges that were lost for the 6,837 items that were not charged to patients in FY 2009-10 for these eight unique supplies.

Table 4.1

Comparison of the Quantity Purchased vs. Quantity Charged for Selected Supplies in FY 2009-10

Item	Quantity Purchased	Quantity Charged	Quantity Not Charged	Average Charge per Item	Potential Lost Charges
Foot Waffle	1,524	1,324	200	\$295.20	\$59,040
IUD - Mirena	583	427	156	\$1,451.02	\$226,359
IUD - Paragard	677	466	211	\$1,084.02	\$228,729
Lap Chole Kit - Bladed	552	247	305	\$615.27	\$187,656
Lap Chole Kit - Bladeless	324	281	43	\$760.73	\$32,711
Pump Breast Manual	2,570	507	2,063	\$176.83	\$364,796
Sleeve SCD Knee - Large	973	240	733	\$388.45	\$ 84,733
Sleeve SCD Knee - Medium	11,130	5,941	5,189	\$234.24	\$1,215,486
Total	15,763	8,926	6,837		\$2,599,511

Source: SCVHHS, Resource Management, Accounting and Information Services

It should be noted that lost charges do not necessarily equate to lost reimbursements, since SCVHHS does not get reimbursed for every dollar charged. However, if a charge capture rate of less than 60 percent is typical for the thousands of chargeable items used annually by SCVHHS, it is not difficult to see how reimbursement rates are substantially lower than they should be, and revenues are severely impacted. This might also help to explain the hospital's large operating losses, as described in Section 2 of this audit. While audit staff did not determine how many items that were not charged were held in inventory, one can assume that on-hand inventory levels are relatively small due to "just in time" purchasing. Furthermore, the daily replenishment of supply par levels obviates the requirement to keep large numbers of stock on hand for any particular item.

SCVHHS did not provide information on how consumption is tracked at the cost center level or its bearing on net revenues. Without this necessary information, nurse managers cannot adequately control supply use, or educate unit staff nurses on waste reduction and conservation of resources where appropriate. SCVHHS may be losing revenues by failing to capture supply charges, but it has no supporting data. SCVHHS should produce monthly reports on supply usage and charge capture at the cost center level, and distribute these reports to every cost center manager, as well as Resource Management managers. This should help improve communication between finance, clinical and resource management staff to achieve improvements in value, as well as quality of care. SCVHHS provided audit staff with a report of SCVMC supply charges by revenue center and hospital service for FY 2009-10. Therefore, it appears that SCVHHS already has the capacity to produce the reports described above.

Data on consumption of supplies that cost less than \$10 should also be tracked and included in room rate calculations. This data would help ensure that room rates capture all indirect, as well as direct costs, associated with hospitalization. While it might be impractical for nurses to capture charges for every supply, no matter how small, SCVHHS should nevertheless understand the actual costs and consumption of these supplies for each unit so that it would have a clearer basis upon which to set room charges to fully recover costs.

SCVHHS medical and administrative staff should regularly study supply consumption reports to understand supply usage by cost center and to find opportunities for savings. For example, among non-chargeable items (items that cost less than \$10 each), a total of \$484,361 was spent on 58,825 oxygen sensors in FY 2009-10. About half of the purchased O2 sensors were disposable, and about half were recycled. Potential savings of \$70,233 could have been realized if only recycled O2 sensors were used. Similarly, \$131,864 was spent on 26,966 disposable thermometers in FY 2009-10. Savings might be achieved by purchasing thermometers that use disposable sheaths, rather than using only entirely disposable thermometers. Some nurse managers and resource management staff have formed the "Green Team" to find similar ways to reduce supply costs. Since the commendable work of this committee has shown some positive results, attendance in this committee should not be voluntary or intermittent and should include representatives from medical units, administration, and Resource Management.

Lack of Controls

Since most supplies in the Central Supply storeroom (about 900 of 1,200 unique items) cost less than \$10, and since audit staff was not provided information on how the consumption of these supplies is tracked, one can assume that it is virtually impossible to establish controls over these supplies. Resource Management and hospital staff reported that "people walk off" with some supplies. The Central Supply storeroom is locked and employee badges are required for access to this storeroom, as well as to supply rooms in the individual units. However, other than that, there are no specific controls. There is no way of determining whether a particular employee or unit is over-utilizing, losing, wasting, or even stealing supplies. One possible solution for controlling supplies in the unit supply rooms is to install a system similar to the Pyxis system for dispensing prescription medications already used at SCVMC, as described above. Similar results could be achieved by implementing a bar-coding system as described above, which would require a nurse to swipe the bar code on a patient's ID band, the nurse's ID card, and the supply item. SCVHHS should establish enhanced policies, procedures and/or systems to control supply storage and distribution.

A lack of control was also reported over incoming and outgoing mail in the central mailroom, which is managed by Resource Management. Because of increasing concerns about identity theft, SCVHHS should also implement a policy, procedure and/or system that would ensure a continuous chain of custody for all mail.

Durable Medical Equipment

Nurse managers and Resource Management staff reported that durable medical equipment (DME), such as crutches and walkers that patients use at home, are not charged to patients, in nearly all instances, because SCVHHS does not have a DME license. Many are given away or otherwise disappear. For example, the Emergency Department gives away crutches to discharged patients, without regard to their ability to pay or insurance status. Nurse managers reported that it is appropriate in some cases to provide patients who could not otherwise afford to purchase these items a “take home” package so that they might heal better and avoid readmission. In addition, because DME supplies are generally not charged, they are not tracked. One nurse manager implemented a new system for monitoring and controlling the distribution of walkers used by Rehabilitation Services, and estimated that since the controls have been in place, at least \$80,000 in lost equipment has been saved.

SCVHHS would increase its reimbursements substantially if it charged patients for DME supplies. Audit staff examined purchase and charge data for four types of DME: safety walker, heavy duty adult walker, youth walker, and walker wheels. As shown in Table 4.2, while a total of 2,321 items were purchased, charges were posted for only 185 items. This means that 92 percent of walkers and walker wheels that were dispensed to patients were not charged. The potential lost charges for the 2,136 items that were not charged to patients total \$565,286.

Table 4.2
Comparison of the Quantity Purchased vs.
Quantity Charged for Walkers in FY 2009-10

Item	Quantity Purchased	Quantity Charged	Quantity Not Charged	Charge per Item	Potential Lost Charges
Walker, Safety 32-36"	725	138	587	\$357.80	\$210,029
Walker, Heavy Duty Adult	60	6	54	\$376.90	\$20,353
Walker, Youth	410	28	382	\$357.80	\$136,680
Walker Wheels (pair)	1,126	13	1,113	\$178.10	\$198,225
Total	2,321	185	2,136		\$565,286

Source: SCVHHS, Resource Management, Accounting and Information Services

The SCVHHS pharmacy had a DME license until December 2009, and it is unclear why this license lapsed. The pharmacy is looking into obtaining a surety bond in order to renew its DME license, so they will be able to bill for these items in the future. In the meantime, nursing and Resource Management staff are looking into contracting with a DME vendor that would install a DME vending machine at SCVHHS and enter into a gain-sharing arrangement whereby SCVHHS and the vendor would share any profits

realized through the sale of equipment. Natividad Medical Center in Monterey County has entered into a similar arrangement. Until a DME license is obtained, SCVHHS should enter into an agreement with a DME vendor to install a DME vending machine at the hospital or refer discharged patients to licensed DME retailers, some of which are located near the hospital.

Supplies Distributed to Outpatients

Resource Management staff estimate that supplies valued at approximately \$7,400 per week are dispensed to patients who come to the Central Supply storeroom window. Discharged patients and outpatients are often given a prescription for supplies (such as wound care dressings, compression boots, or catheters), and directed to pick these up at the Central Supply storeroom. Resource Management staff reported that some patients (approximately 30 per day) return to the Central Supply storeroom for several months or years to refill supplies. Many of these supplies cost less than \$10 each, so they are not charged to the patient. For example, one catheter cost \$0.63, so it would not be charged to the patient. Previously, even if a patient received a prescription for 90 catheters (a three-month supply), he would not be charged.

Resource Management has considered a process that charges a patient by the box, rather than by the individual item. So for example, since each box of 30 catheters costs \$18.90, a patient with a prescription for 90 catheters can be charged for three boxes. In contrast, if the 90 catheters are not dispensed by the box, but accounted for individually, the patient would not be charged at all. Resource Management and nursing staff are also investigating preparing “take home” packs for patients, so that charges for supplies that were previously given away can be charged. SCVHHS should move forward with creating “take home” packs that bundle low cost items, so that they can be charged to patients.

CONCLUSION

SCVHHS spent more than \$41.3 million on medical/surgical supplies in FY 2009-10. However, because SCVHHS uses an antiquated and error-prone system for capturing supply charges, many supplies that are used are not charged to patients and thus are not reimbursed. SCVHHS does not accurately track the consumption or charges submitted for supplies, and management information is lacking on supply usage and charge capture. There are also inadequate controls over the storage and distribution of supplies.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 4.1 Quantify the costs and benefits of replacing the “peel-and-stick” or “bingo card” system with an automated bar-coding or Pyxis system. (Priority 1)

- 4.2 If the “peel-and-stick” or “bingo card” charge capture system is retained, ensure that all supply charges are entered daily by requiring medical staff to put dates on every card, requiring Central Supply staff to pick up all cards from all departments, and increasing the number of staff trained and qualified to complete charge entry duties. (Priority 1)
- 4.3 Produce monthly reports on supply usage and charge capture at the cost center level, and distribute these reports to every cost center manager, as well as Resource Management managers. These reports should be studied regularly to find opportunities for savings. (Priority 2)
- 4.4 Analyze consumption of supplies that cost less than \$10, and include this information in room rate calculations. (Priority 1)
- 4.5 Require representatives from medical units, administration and Resource Management to meet regularly as part of the Green Team. (Priority 3)
- 4.6 Establish enhanced policies, procedures and/or systems to control supply storage and distribution and ensure a continuous chain of custody for all mail. (Priority 2)
- 4.7 Until a durable medical equipment (DME) license is obtained, enter into an agreement with a DME vendor to install a DME vending machine at the hospital, or refer discharged patients to licensed DME retailers, some of which are located near the hospital. (Priority 2)
- 4.8 Prepare “take home” packs that bundle low cost items, so that they can be charged to patients. (Priority 2)

SAVINGS, BENEFITS AND COSTS

While a bar-coding system would require up-front costs of approximately \$268,000 for hardware, software, professional and technical services, and annual maintenance costs of approximately \$16,000, and a Pyxis system would result in monthly lease charges (estimated at \$250 per month for each cabinet), either system would improve efficiency and management of supply consumption, result in increased charge capture, and allow automatic recording in medical records. Automation would also generate savings since some positions would no longer be needed and could be eliminated. In addition, tightening controls on the storage and distribution of supplies would decrease the number of supplies that get lost, wasted, stolen, or given away. Together, these recommendations would result in significant ongoing reduced costs and increased revenues. Finally, improving management information and communication with clinical and other departments would result in enhanced cohesion, better management decisions based on all available information, and improved quality of care for patients.

HHS Billing and Special Billing Process

Product Management OSIII clerk processes all Patient billing and special billing for Central Supply Dept. through PMM and Invision billing system. Billing is for all health and hospital systems which include all outline clinics, including main jail medical.

- Central Supply issues out and bills departments for supplies that are needed on par carts.
- Departments will place a sticker on bingo card that is sent down to central supply. Central supply will bill the patient for the items used.

Today's Date

- IP28
- OP12

PERFORMER

SERVICE DATE

DOC. CONTROL NO.

REQUESTOR

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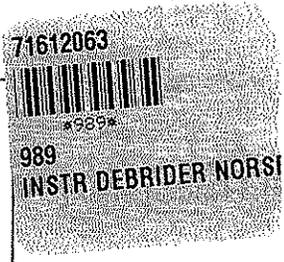
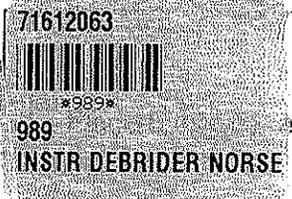
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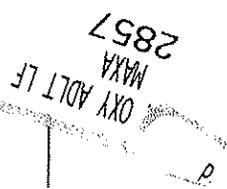
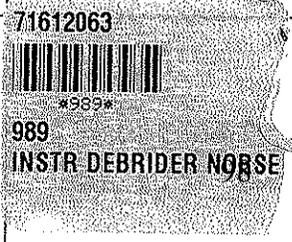
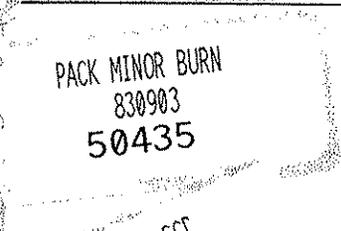


S.C.V.M.C. PATIENT SUPPLY CHARGES

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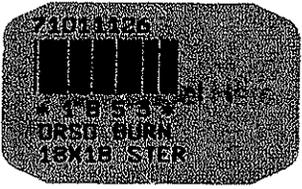


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Department MATERIALS MANAGEMENTPolicy/
Procedure #10.3

Subject	Effective Date	Latest Revision & Date
ADDITIONS TO/DELETIONS FROM CHARGE MASTER	1-90	

Patient chargeable supplies are generally considered to be those that will have a unit cost of \$10 or more.

When a new supply is purchased that will become patient chargeable, the charge master is updated.

This notification form is sent to data processing after it has been verified that the item is not in inventory (to avoid a duplicate item being assigned two [2] code numbers).

Data processing will assign the code number and return a copy of the notification form to the requesting department. The code number is then ready for use.

The requesting department will also receive an updated charge master showing the item added to the file.

The description and price should be verified. Any errors should be immediately corrected.

Affected Departments

Reviewed _____

Section 5. Supply Policies, Contracts and Systems

Background

- Although supply costs account for at least \$41.3 million of the Santa Clara Valley Health and Hospital System's (SCVHHS) annual budget, medical staff function in a "cost unconscious" environment where they have not been given the information or opportunity to make cost-effective changes in the selection, purchase and use of supplies.

Problem

- Nurses and physicians at Santa Clara Valley Medical Center (SCVMC) are not adequately informed of the clinical outcomes or financial impact of the supplies they select, purchase and use. There are also no comprehensive policies or procedures in place for selecting or authorizing the purchase of supplies. The presence of vendors in operating rooms raises issues of patient safety, as well as potential conflicts of interest. The details of supply contracts are difficult to access, vendors change supply information to obscure changes in originally contracted prices, and contract information is not updated and maintained. Multiple systems are used for supply inventories and charging, making it difficult to integrate interrelated functions.

Adverse Effect

- As a result, SCVMC nurses and physicians are unable to control the inefficient use of supplies and unnecessary supply purchases and thus contribute to the financial viability of the hospital. In addition, vendors may improperly influence the purchase of expensive supplies and devices used in the operating rooms. Because buyers do not have ready access to supply contract details or updated contract information, they may be spending more money for supply items than was originally agreed upon in contracts. Finally, without an integrated system for coordinating supply purchases, contracts, inventories and charges, managers cannot access necessary information to improve efficiency and performance.

Recommendations

- SCVHHS should share cost information as well as clinical outcome information about supplies with medical staff. Medical staff and financial staff should be required to participate in the supply selection process, and policies for authorizing the purchase of supplies should be updated and enhanced. These recommendations would result in better outcomes for patients, as well as better values. A contract management system that compares invoices to contract prices and an integrated master system that supports supply inventory, contracts, and charging modules should be installed, and the details of all supply contracts should be updated and made easily accessible to increase efficiency and assist staff in purchasing supplies at negotiated contract rates.

Cost Consciousness in the Selection and Use of Supplies

Although supply costs account for at least \$41.3 million of the Santa Clara Valley Health and Hospital System's (SCVHHS) annual budget, the system functions in an environment of "cost unconscious" demand. The uncontrolled purchase and inefficient use of supplies and equipment by nurses and physicians can add several million dollars to the hospital's budget, yet nurses and doctors generally have no way of knowing the cost of the supplies they are ordering or using. Medical staff need to be given economic awareness of the impact of their supply purchase decisions as well as their supply use. To accomplish this, Finance should share supply cost information with and require active participation in budgetary decisions by nurse managers and physicians at the unit level. On general medical and surgical units, nurses are the largest users of supplies and equipment, so nurses are in a pivotal position to achieve cost savings and contribute to the financial stability of SCVHHS.

Recently, the County's Procurement Department has been working closely with operating room surgeons on physician preference items, such as trauma supplies, total joints and spine implants, and two requests for proposals (RFPs) for orthopedic implants and another RFP for interventional cardiology products, such as stents, were released. This kind of involvement by physicians and collaboration with Procurement staff in key decision-making processes is viewed as a positive development in giving physicians the opportunity to make cost-effective, as well as efficacy, decisions in the selection and purchase of expensive equipment.

Product Review

It is important to look at how new supply products are reviewed and how supply purchases are authorized, since these are the first links in the supply chain. The Product Review or "Value Analysis" committee was created to review, evaluate and select products to get the best value. "Value" means not only finding the best price, but also assuring that the best quality products for the best price are chosen. This means that the committee should consider improvements in performance and patient safety, including minimizing errors and adverse events, improving quality of patient care, and reducing cost and waste. This committee sets up trials with vendors and provides nursing education when new products are selected. A product will be changed only if there is a lower cost item and/or better patient outcomes. The committee is currently composed of a group of nurses, nurse managers, and representatives of several SCVHHS services and divisions, and is led by the Materials Logistic Manager; however, participation in the committee is voluntary.

Nurse and physician representatives from each unit should be required to participate in the Value Analysis Committee, as well as representatives from the Finance Department who are notably absent from the committee as currently structured. VMC Policy and Procedure #523.1, dated December 3, 2007, describes the policy and procedure for product review and evaluation through the Product Review Committee (now called the

Value Analysis Committee). The Director of Resource Management is currently updating the document, and should include these requirements.

Supply Purchase Authorization

SCVHHS Policy and Procedure #940.0, dated April 22, 2009, defines the procedures for procuring supplies. Pursuant to this policy, a provider must submit a supply requisition to a department manager in his or her cost center for approval before a purchase order is issued through the Pathway Materials Management (PMM) system, which automates the ordering and inventory management of supplies. Resource Management designates the item as either Contract Release or Direct Pay, and then transmits the order to the vendor. The vendor issues an invoice through PMM, which is then entered in the County's financial system, SAP, for payment.

There has been some confusion about the categorization of a supply purchase order as "Direct Pay." Audit staff was told by Resource Management personnel that *every* supply requisition requires approval from a cost center manager, and that no purchase orders, whether under a contract or direct pay, are issued without that authorization. A system of checks and balances exists whereby there is a verifiable three-way match including:

1. An approved purchase order;
2. A receipt for the supply goods; and
3. An invoice.

However, because SCVHHS has one system for ordering supplies (PMM) and a different system for supply billing (SAP), and these systems do not "talk to one another," Finance assigns a direct pay code to off-contract supply items in order to "trick the system" and allow SAP to pay for an invoice that was created by a PMM purchase order. If the requested item is for off-contract items that exceed \$5,000, the supply requisition is routed to Procurement for processing. The Procurement Department is currently investigating ways to control the approximately \$25 million being spent annually on Direct Pay items; however, it is unclear whether the fundamental issue is actually a systems concern, rather than a problem with lack of controls.

While supply requisitions for routine items ordered through PMM are processed within one business day, supply requests handled by the Procurement Department have been reported to take much longer, and often exceed one year. While a long wait for a needed supply can be frustrating for the end user, there are many reasons why a purchase request for a more expensive item handled by the Procurement Department might take longer than expected. For example, the justification in an application submitted to Procurement for a single source vendor is inadequate, or SCVHHS users have not identified requirements or completed the Statement of Work.

Although unit managers must authorize purchase orders, they are currently approving purchases without information regarding the cost and charge capture of supplies at the unit level. The SCVHHS Finance Department should share budgetary information and make nurse managers and physicians at the unit level aware of the economic, as well as clinical, impacts of their supply purchase authorizations as discussed above. National organizations, such as the Institute for Healthcare Improvement, and local organizations, such as the Beacon Collaborative, have identified ways to reduce expenses while at the same time improve the quality of care delivered to patients. With more information and better systems, medical providers can be made more mindful of improving clinical outcomes, reducing loss or waste of supplies, and capturing charges for more supplies, thereby ensuring the quality of patient care and the sustainability of SCVMC and its ability to serve more patients, especially patients from underserved populations who have few health care options.

Despite specific requests for copies of policies and procedures, audit staff was not provided with information about what process is followed for authorizing more expensive surgical devices, such as orthopedic implants. It has been reported, however, that the Peri-operative Director tries to limit surgeons' choices of expensive surgical supplies, such as stents and implants, and items that cost more than \$5,000 must be approved by Procurement. However, it was also reported that there is little control over the more expensive physician preference items (e.g., stents and guidewires) that there is no formal process for their selection, and that patient outcomes are not tracked.

Vendors in the Operating Room

Regardless of any formal procedures, vendors routinely visit and provide samples of devices to individual surgeons and the Operating Room Resource Manager in an attempt to influence the selection and purchase of supplies and devices. Medical device vendors are also permitted to be in the operating rooms (OR) during procedures to provide surgeons with technical support when the vendor's product (e.g., knee or hip implant) is being used. In order to gain access to the OR, vendors check in at the SCVMC security office and sign in at the OR front desk, but otherwise vendors appear to have easy access to the OR. Also, Resource Management staff stated that vendors complete and submit a Business Associate Agreement and a "Perioperative Services Vendor Policy" form. The Business Associate Agreement describes Health Insurance Portability and Accountability Act (HIPAA) regulations, the Health Information Technology for Economic and Clinical Health (HITECH) Act and prohibitions against disclosure of protected health information (PHI).¹ The "Vendor Policy" states that any product or service provided by a vendor that exceeds the hospital pay limit of \$5,000 must have prior authorization from County Procurement. In the case of patient implants or chargeable products supplied during surgery, the vendor must

¹ PHI is any information about health status, provision of health care, or payment for health care that can be linked to a specific individual. This includes any part of a patient's medical record or payment history.

immediately provide the OR business office with an invoice. However, no formal SCVMC Policy and Procedure governing vendors in the OR was found or produced.

Audit staff observed an orthopedic implant vendor in the operating room who was there to advise surgeons during procedures about which implantable microscope device or accessory would be most appropriate for a particular patient. This vendor explained that his training consisted of a two-week formal course, followed by “on-the-job” training in the OR. Vendors are not credentialed or licensed, and there are no minimum standards for education or training. While surgeons generally appreciate the on-the-spot assistance that vendors provide, the presence of vendor representatives in the OR raises many concerns, including patient safety and the possibility of questionable financial relationships, conflicts of interest, or kickbacks. Although vendors can help surgical staff stay current on new equipment that is available, they are in the OR for the purpose of selling their company’s products. The benefits must be weighed against the possible dangers of potential distractions.

SCVHHS should update and implement new policies and procedures for authorizing the purchase of supplies, including both basic supplies used in inpatient and outpatient units, as well as more expensive implants and surgical supplies. Representatives of the Finance Department, Resource Management, and the medical staffs from every inpatient and outpatient unit should be required to participate in value analysis committees. Authorization and purchasing decisions regarding medical supplies should be based on an analysis of the value of the products that considers improvements in performance and patient safety, minimizing errors and adverse events, improving quality of patient care, and reducing cost and waste. Nurses and physicians should be provided with information regarding the economic impact, as well as the clinical impact of the supplies they purchase and use. SCVHHS should also consider requiring a six-month post-implementation review of new product introductions that will analyze any changes in cost, savings achieved, clinical benefits, and that compares actual reimbursements against projections.

Policies and procedures should also be set regarding the role of vendors in operating rooms, with a goal towards ensuring patient safety and minimizing conflicts of interest between vendors and medical staff. The presence of vendors during any procedure should continue to be disclosed to the patient, who should be able to refuse to have the vendor present, and vendors may be asked to leave the operating room at any time. Private agreements between vendors and physicians should be prohibited.

Other Issues

In addition to the more formal procedures for authorizing the purchase of items by medical staff from the inpatient and outpatient units using PMM, items may also be picked up directly from the window at the Central Supply storeroom. There is little control over distribution of items from Central Supply, and employee requests for supplies that come to Central Supply (by email, phone, fax, pneumatic tube, or in person) are routinely filled and not scrutinized.

There is no centralization or standardization of the purchasing process for outpatient clinics. While Central Supply handles much of the management of supplies used by the outpatient clinics, there is no budget in Central Supply to cover this work. All supply purchasing, including purchasing for ambulatory centers, should be centralized in Resource Management.

Supply Contracts and Systems

Contract Maintenance

SCVHHS Resource Management staff reported concerns about the maintenance of contracts for supplies. Many contracts are written on a “not to exceed” limit, but do not break down the constituent elements of the contract. This makes it difficult to drill down in a contract and to track inventory and usage of particular items that are contained in the contract.

Further, Resource Management staff reported that it is difficult to search for price information when using the Master Contract Index available on the intranet, making it difficult for staff to know if particular items are on contract. Audit staff tested the Contract Index, and found the site difficult to use. The contracts are posted in a PDF format, rather than an excel spreadsheet, so they are difficult to navigate and find specific price information. An easily accessible list of items that are included in each contract is not available. This makes it difficult for staff to cross-check and make sure that vendors are charging the amounts that were agreed upon in their contracts. As a general rule, Resource Management buyers are expected to purchase items that are on contract, but it is difficult for them to know if particular items are on contract or what is the correct and current contract price.

Price Discrepancies

A related contract issue arises because vendors frequently change the name, item number or price of contracted supplies, making it difficult or impossible to match a current invoice price to a contract price. Resource Management piloted a GHX system that compared purchase order prices to contract prices and found discrepancies of between \$0.07 and \$131.74 per unit, resulting in a total overpayment of \$131,812 for the purchase of varying quantities of just 57 of the 1,200 unique items that are available.

In its proposal for expanding the existing GHX system to include all supply items, GHX estimated significant annual cost savings of 1 to 3 percent of the total supply spend. Based on a projected 3 percent cost savings on an annual supply spend of \$50 million, the proposal estimated that a \$986,000 investment in three years (\$638,400 in year one, followed by \$173,800 in on-going annual expenses in subsequent years) would achieve three-year cost savings of \$4,500,000. Assuming a more conservative cost savings of 1 percent annually on a total spend of \$40 million, SCVHHS could save \$400,000 annually, or a total of \$1,200,000 in the first three years. By this more conservative estimate,

SCVHHS would achieve net savings of \$214,000 in the first three years, \$666,400 in the first five years, and \$1,797,400 in 10 years.

A contract management system that uses a gain-sharing arrangement would provide an alternative that achieves cost savings, but with a smaller initial investment. For example, the Demand Data System contract management company has proposed an arrangement whereby the County would get 70 percent and Demand Data would get 30 percent of any gains realized by comparing invoice prices to contract prices. So for example, if Data Demand had found the \$131,812 in overpayments on contracts, the County would keep \$92,268 ($\$131,812 \times 0.70$), and the company would keep \$39,544 ($\$131,812 \times 0.30$), but there would be no additional expenses.

SCVHHS should install and implement a contract management system that identifies discrepancies between prices on supply invoices and contract prices to achieve cost savings.

Updating Contracts

Additionally, it appears that contracts are not universally maintained or updated. In at least one case, the index noted that it was updated in October 2010, but the contract itself only showed updates in 2004, 2006 and 2008. Board of Supervisors' Policy 5.4.3 allows for the duration of commodity and equipment contracts to vary depending upon the nature of the supply or asset that is purchased, but generally they do not extend beyond a three-year period. However, according to Board Policy 5.3.6, master procurement and maintenance agreements may extend anywhere from one to five years, depending upon the nature of the commodities and other factors. It appeared that several contracts were in place for at least six years, may not have been re-approved in a timely manner, and were possibly in violation of the Board's policies. The Procurement Department will be reviewing Section 5 of the Board Policy Manual to clarify policies that are confusing or seem to contradict one another.

During the course of this audit, the County Procurement Department began working closely with the SCVHHS Resource Management Department to address many of these issues, including standardizing contract documentation and posting contracts in a way that permits easy access and the ability to retrieve information down to the item level. Additionally, Procurement has begun to review, update, and monitor contracts. This cooperation between Procurement and Resource Management should continue, since it increases the transparency of and access to contract details and should result in significant savings. The Procurement Department launched an extensive 18-month pilot project that deployed Procurement staff to SCVHHS to supervise the procurement function and to ensure that proper procurement practices were followed; the Board of Supervisors approved the continuation of this program on a permanent basis at its March 1, 2011 meeting. Additionally, Procurement staff provide training to department staff who carry out purchasing activities.

System Inefficiencies

The Resource Management Department interfaces with many different systems to inventory, order and charge supplies and fixed assets, including the following six systems:

- PMM – inventory and purchase order management for supplies;
- SIS – surgical case scheduling and patient charging;
- Lawson – financial accounting system;
- SAP – procurement and fixed assets;
- PCSI – pharmacy prescription processing and billing; and
- GHX – electronic purchase orders and price catalogs.

Because there is no one centralized source of information, it is difficult to integrate the many interrelated functions. For example, as mentioned above, supplies are ordered, inventoried and invoiced in the PMM system, but the PMM-generated invoices are paid through the SAP system. SCVHHS should consider installing a single integrated master system, such as Oracle or SAP, to support the many modules currently being managed by multiple systems in Resource Management, or streamlining existing systems to better integrate functions across systems. Using a single integrated master system that supports many modules would improve efficiency and reduce errors, waste, and redundancies. This would allow managers to drill down into many interrelated functions and get necessary information to improve department performance.

CONCLUSION

Medical staff are generally unaware of the economic impact of their supply purchases and use. Policies and procedures for authorizing the purchase of supplies are not comprehensive, and there is not adequate representation by nurses and physicians from each unit or by financial management when new supplies are selected or supply purchases are approved. Details of supply contracts are not accessible, purchase order prices often do not match contract prices due to changes made by vendors, and contract information is not updated and maintained. Many systems are used for charge entry and for inventory and financial management of supplies, causing confusion and inefficiencies.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 5.1 Update and enhance policies and procedures for authorizing the purchase of supplies. (Priority 2)

- 5.2 Require participation of representatives from Finance, Patient Business Services, Resource Management, and all inpatient and outpatient clinical units in value analysis committees. (Priority 2)
- 5.3 Implement a six-month post-implementation review of new product introductions analyzing costs, savings, and benefits. (Priority 2)
- 5.4 Establish policies and procedures regarding the role of vendors in operating rooms. These policies and procedures should ensure patient safety and minimize conflicts of interest between vendors and medical staff. (Priority 2)
- 5.5 Centralize all supply purchasing, management, and control, including supplies for outpatient clinics, in the Resource Management Department. (Priority 2)
- 5.6 Install and implement a contract management system that identifies discrepancies between prices on supply invoices and contract prices to achieve cost savings. (Priority 2)
- 5.7 Continue working with the County Procurement Department to address contracting issues, including standardizing contract documentation and posting contracts in a way that permits easy access and the ability to retrieve information down to the item level. (Priority 2)
- 5.8 Consider installing a single integrated master system, such as Oracle or SAP, to support the many modules currently being managed by multiple systems in Resource Management, or streamlining existing systems to better integrate functions across systems. (Priority 2)

SAVINGS, BENEFITS AND COSTS

Making medical staff aware of the clinical outcomes as well as economic impact of their supply use and purchase decisions, and instituting more comprehensive policies and procedures for authorizing the purchase of supplies, would result in better outcomes for patients, as well as better values. In addition, integrating and streamlining systems and maintaining and monitoring contracts would increase efficiency and assist staff in purchasing supplies at negotiated contract rates.

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Section 6. Information Technology Governance

Background

- The Santa Clara Valley Health and Hospital System (SCVHHS) spends millions of dollars annually on data information systems. Its Information Systems Department's function is to operate and maintain information systems, computing operations, applications development, help desk functions, and network and data infrastructure for the entire health care agency. The Department spent \$34.8 million in FY 2009-10, and was budgeted for additional capital expenditures of \$6.5 million. In FY 2010-11, the Department is budgeted at \$33.5 million. Information technology (IT) expenditures levels are likely to expand substantially in the coming years.

Problem

- Information systems development across SCVHHS is not centrally planned, and a steering committee envisioned for this purpose since 1995 has never been formed. While a planning body exists for Santa Clara Valley Medical Center IT projects, it has no responsibility for projects in General Fund health care departments. Furthermore, there is no coordinated system for accurately tracking where IT funds are spent across SCVHHS, and what projects and staff are supported.

Adverse Effect

- This lack of centralized oversight reduces budgetary accountability and could result in inefficient use of resources, through system duplication, as well as the loss of substantial incentive payments and Medicare reimbursements for failing to demonstrate meaningful use of electronic health record technology. The absence of a central Project Management Office (PMO) means the SCVHHS Chief Executive Officer may not receive timely information on the progress of projects or of projects at risk of failure.

Recommendations

- SCVHHS should establish the Agency-wide Information Systems Steering Committee, as previously proposed, to serve as the primary body for prioritizing IT projects across SCVHHS. It should also create a Project Management Office (PMO) reporting directly to the Steering Committee to evaluate the justification and estimated cost of proposed IT projects. The PMO should also monitor the progress of approved projects against their authorized costs and timelines, and report the results to the SCVHHS Chief Information Officer. These steps would provide improved planning and oversight over the SCVHHS IT program, ensuring that the highest priority projects are funded first, and that project progress is continuously monitored against time and cost overruns.

Why Project Planning Is Important

The Santa Clara Valley Health and Hospital System (SCVHHS) spends millions of dollars annually on data information systems. Its Information Systems Department's function is to operate and maintain information systems, computing operations, applications development, help desk functions, and network and data infrastructure for the entire health care agency. The Department spent \$34.8 million in FY 2009-10, and was budgeted for additional capital expenditures of \$6.5 million. In FY 2010-11, the Department is budgeted at \$33.5 million.

Information technology (IT) expenditures levels in SCVHHS are likely to expand substantially in the coming years as a result of the following major projects:

- The 2009 American Recovery and Reinvestment Act (ARRA) has earmarked funding through the Health Information Technology for Economic Clinical Health Act (HITECH) to improve patient care. Beginning in 2011, health care providers can receive stepped incentives if they fulfill criteria to demonstrate "meaningful use" of certified patient electronic health record (EHR) technology. Each eligible professional can receive up to \$44,000 from the Medicare EHR Incentive Program over a five-year period, or up to \$63,750 from the Medicaid EHR Incentive Program over a six-year period.¹ In addition, eligible hospitals can receive at least a \$2 million base payment from each program, for a total base payment of \$4 million, and additional incentive payments for up to four years. Medicare eligible professionals and hospitals that do not successfully demonstrate meaningful use by 2015 will be subject to payment adjustments.² Registration for the first year of the Medicare EHR Incentive Program began on January 3, 2011, testing of systems begins in April 2011, and incentive payments are expected to begin in May 2011.³ SCVHHS is installing an EHR system within its outpatient clinics, but no similar system currently exists at the hospital. While SCVHHS stated it expects to obtain these incentives in 2011, it could not provide a schedule or any other indication of when it would be ready to register for the incentive programs.
- Core Strategy, which is also under development, is aimed at replacing the core operating systems of SCVHHS. More than \$500,000 has so far been spent on

¹ A Medicare eligible professional is a physician, dentist, podiatrist, optometrist or chiropractor who is not "hospital-based", which means that the professional does not perform more than 90 percent of his or her professional services in a hospital inpatient or emergency department setting. A Medicaid eligible professional is a physician, dentist, certified nurse-midwife or nurse practitioner who is not "hospital-based".

² The payment reduction starts at 1 percent and increases each year that a Medicare eligible professional does not demonstrate meaningful use, to a maximum of 5 percent. There are no payment adjustments under the Medicaid EHR Incentive Program.

³ In California, registration for the voluntary Medicaid EHR Incentive Program begins in February 2010. While the program continues through 2021, the last year to begin participation is 2016.

developing this project, which will be a multi-million dollar IT replacement project, if it goes ahead.

- Another large project is the changeover to a new standardized code set for the International Classification of Diseases (ICD), from ICD-9 to ICD-10. It has a completion date of December 2012, and is anticipated to be a multi-million dollar project.

Big system development can be complicated and affect many parts of the Agency that have regulatory and reporting responsibilities. Excellent coordination and monitoring of system development is fundamental to ensure IT projects are timely, on budget and meet regulatory specifications especially.

Centralized County Oversight of SCVHHS IT Projects is Weak

Despite the large sums being spent and expected to be spent on information technology development within SCVHHS, centralized planning and oversight for this function is weak in several areas.

First, centralized County administrative control of SCVHHS IT projects is limited. The County publishes a rolling Information Technology Three-Year Plan that sets out the County's main objectives for information technology improvements, and lists projects proposed by County departments to meet these objectives. Departmental proposals are prioritized by the Information Technology Executive Committee (ITEC), and proposals are detailed in the plan with estimated costs. The Committee is comprised of 17 executives representing all of the County's major agencies and departments; SCVHHS has two representatives.

For the FY 2010-11 through FY 2012-13 period, the Plan outlines 173 project requests with an estimated total cost of more than \$248 million. Almost one in seven of these project requests comes from SCVHHS, and of these, less than one-third (six out of 27) are requests for projects funded by the Santa Clara Valley Medical Center (SCVMC) Enterprise Fund. The estimated project costs for the reported SCVMC Enterprise Fund projects totaled approximately \$3.6 million. Unlike projects funded by the General Fund, ITEC does not decide what SCVMC Enterprise Fund projects receive funding, even though the General Fund provided a \$173 million subsidy to the SCVMC Enterprise Fund in FY 2009-10. The County Executive should therefore expand ITEC's oversight to include prioritizing all SCVHHS projects, including those paid for from the Enterprise Fund, based on the subsidy provided to that fund. ITEC would receive information from a more robust project planning and oversight process within SCVHHS, as described in the remainder of this section.

Oversight of SCVHHS IT Projects By Top Management Is Weak

On paper, SCVHHS has established a committee structure for review of technology projects that will bring IT governance to the organization. SCVHHS Policy #512.10, which was originally issued on June 1995 and revised in May 2010, outlines the Information Systems Steering Committee (ISSC). As shown in Attachment 6.1, the ISSC's responsibilities include:

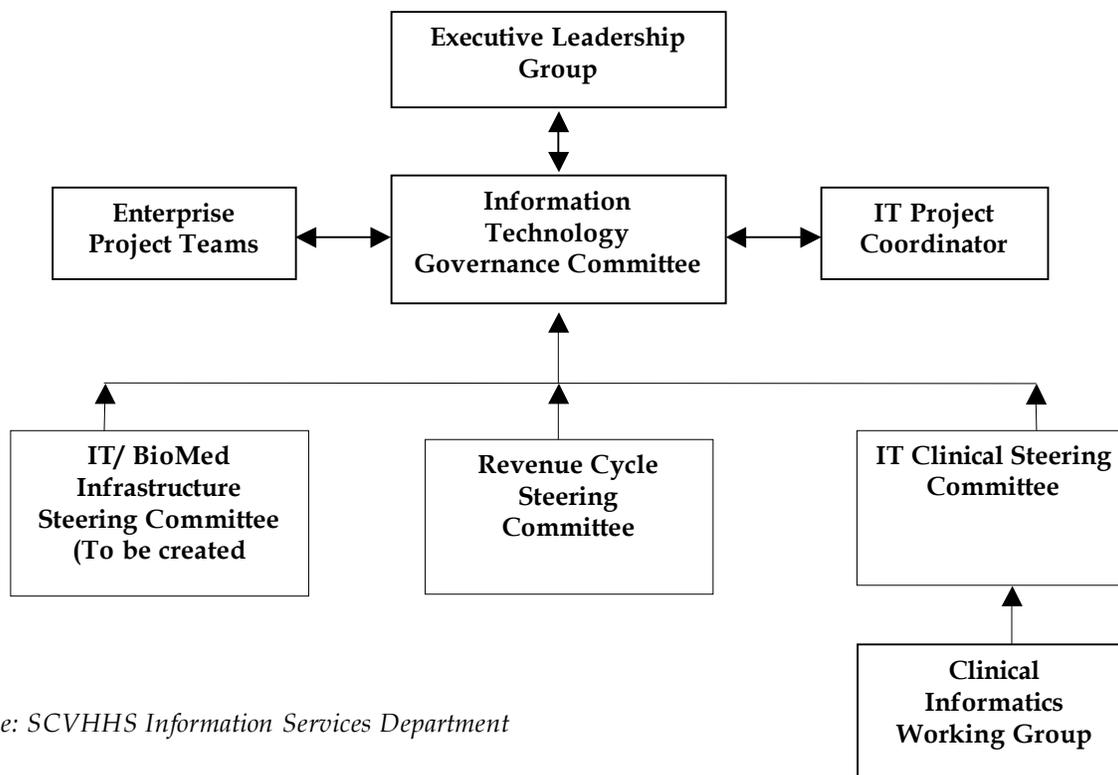
...reviewing, planning and coordinating the development of, and ongoing support for the Health and Hospital Systems (HHS) computerized information systems and networks. The ISSC reviews and approves all request for systems, networks and system staff consistent with County policy.

However, no ISSC actually exists today. Discussions with managers in the Information Services Department revealed that this is one of the biggest problems for them, since there is no SCVHHS-wide means to prioritize projects that includes the Public Health Department, Mental Health Department and the Department of Alcohol and Drugs, all of which are funded from the General Fund.

Currently, only SCVMC has an IT Governance Committee. While a Charter was written for the Committee in August 2010 (Attachment 6.2), the relatively new SCVMC IT Governance Committee still has yet to form all of its constituent subcommittees and take full responsibility for prioritizing IT projects with the hospital and associated clinics. Many SCVMC departments are represented on at least one of the various subcommittees. The IT Governance Committee also interfaces with the Executive Leadership Group, which is comprised of 13 executives, including the Chief Executive Officer, Chief Financial Officer and Chief Information Officer, to provide feedback. The Committee's organization is shown in Chart 6.1 on the next page.

Chart 6.1

IT Governance in SCVMC



Source: SCVHHS Information Services Department

While the newly-formed IT Governance Committee is a step forward, this committee also has little authority, since it does not make recommendations for prioritizing projects during the SCVHHS internal budget process. This is despite being responsible for approving information system development throughout SCVMC, and thus being in the best position to understand the needs of the organization for information. Furthermore, it is unclear how the Executive Leadership Group provides budgetary leadership and prioritizes IT projects, since all departments within SCVHHS are not represented.

In order to provide prioritization of IT projects across the entire health care system, SCVHHS should immediately establish the ISSC pursuant to SCVHHS Policy #512.10. Ensuring that EHR technology meets the criteria for meaningful use and registering for the EHR Incentive Programs should be one of the top concerns of the ISSC, so that the County does not lose substantial incentive payments and Medicare reimbursements. This would also have a direct impact on the quality of patient care and ultimately help to streamline operations and reduce costs.

Costing New Projects

In the absence of any centralized IT planning process within SCVHHS, health agency departments plan a number of projects at both the strategic and tactical level that require some connection to SCVHHS information systems. Funding for these projects comes from various sources, including individual departmental cost center services and supplies budgets, budgeted capital equipment with department budgets, or department-obtained grants. To request a project, sponsoring departments fill out a Project Request Form, an example of which is provided as Attachment 6.3, with information on available funding and criteria for success. The process for approval is that the forms are submitted to the appropriate IT Governance subcommittee, then approved by the IT Governance Committee, and prioritized by the Executive Leadership Group. A Project Manager appointed within Application Services keeps records of all projects. However, a review of a sample of these forms (about 22 of the 87 forms submitted over the past two years) identified a varying level of detail.

For instance, the source of funding was not always identified, and sometimes when it was, it varied from what was available for the project in a department's capital equipment budget. Usually, the cost of purchasing equipment was noted, although the audit did not test for accuracy. Other details, including ongoing operational costs and implementation and testing costs, were absent. A major shortcoming was that almost none of the projects included the cost of staff from the Information Services Department needed to implement and maintain a project, as discussed further below. This was true for both the larger and smaller projects. The Project Request Form also rated poorly on listing criteria for project success. One of the most common measures of success listed on these forms was that the new system be installed or become operational. Details were very basic, and almost none went to any level of sophistication that could describe quantitative measures of success. According to the Information Services Department, the Project Request Form was not designed for, or intended to capture, monitor or report success factors. The form is technical in nature and captures appropriate information to enable the Department to assign staffing resources to projects.

Without detailed information on the cost of proposed projects, how they will be paid for, and the justification for such projects, in terms of operational improvements that the projects would provide, neither the IT Governance Committee nor SCVHHS has the ability to determine which projects should be prioritized, or to monitor project costs. Consequently, SCVHHS should require more detailed information on Project Request Forms to ensure that each and every IT project is properly costed with labor and equipment, that ongoing costs are identified along with savings, and that the success of each project can be measured quantitatively. Committees could then use this information to prioritize projects.

Accounting for IS Staffing Costs

Applications Support staff within the SCVHHS Information Systems Department act as project managers and liaisons for SCVHHS departments on projects. At the time of the audit, Applications Support had scheduled 65 projects across SCVHHS, of which about 50 were active. The systems within SCVHHS are numerous and there are at least 85 interfaces between the major systems. There are over 50 contracts for information technology services, and there are over 150 vendors for whom purchase orders have been opened.

In addition to Applications Support staff, staff from the Information Services Department Technical Services Unit are needed to connect servers, and network medical equipment. To utilize this staff, Technical Service Liaison Agreements have been established between Application Support and Technical Services. The Technical Services Liaison Assignment management report from July 2010 showed that there were 33 projects requiring the expertise of various staff, which amounted to more than 8 FTE positions. This is 12 percent of Technical Services staff. Based on an average salary plus benefits for an Information Services staff person of \$140,000, excluding the Chief Information Officer, Deputy and non-technical staff, these positions represent more than \$1.1 million in staff costs. And these staffing costs do not include staffing costs from Application Services, which does not appear to have any process for allocating its 65 staff across projects. Furthermore, for the most part, none of the costs for Technical Services or Application Services staff are included in the costs of individual projects. Without complete information on project costs, there is no way to determine the true costs and benefits of projects. Finally, the method of allocating Technical Services and Application Services staff to projects may not reflect the Agency's top priorities, maximizing the benefits to SCVHHS.

Although the Information Services Department has the responsibility to connect, run and maintain the electronic capabilities of medical devices, it does not have complete control of its staffing resources. When other SCVHHS departments expend their operational and capital equipment funds on projects, their decisions impact the Information Services Department. For example, other SCVHHS departments did not always consult the Information Services Department before purchasing medical devices, but after purchasing them, the other departments realized the medical devices required networking, access to server space or a storage device. These do not appear to be jointly planned by the Information Services Department and other SCVHHS departments. With a poor allocation of resources across SCVHHS, timelines slip, projects do not meet deadlines, and resources are not available at the required time to complete projects.

Project Monitoring is Lacking

As previously noted, SCVHHS currently does not have a clear process for prioritizing IT projects, since the existing SCVMC IT Governance Committee lacks authority, and also is not receiving sufficiently detailed information from departments proposing projects on the full costs, financing sources and anticipated benefits of proposed projects. Our review also found that there is no centralized method for monitoring the progress of IT projects against budgeted costs and timelines, in order to provide objective information to SCVHHS management and ultimately the Board of Supervisors about the progress of projects, and to provide an early warning about projects that are in danger of failing.

Currently, the Department has a Project Manager position within Application Services that is already assigned this role. According to interviews, the Project Manager is responsible for entering the Project Request Forms provided by departments who want to carry out IT projects into a centralized database. Forms for SCVMC projects go to the SCVMC IT Governance Committee, as previously discussed. However, there is no indication from interviews or other information obtained during the audit that there is a mechanism for the Project Manager to track the progress of authorized projects against the budgeted cost and timeline. While the Project Manager would appear to have the proper role to do this, the position is located two reporting levels below the SCVHHS Chief Information Officer, who in turn reports to the SCVHHS Chief Executive Officer. The position lacks sufficient authority to carry out this task and directly influence budget setting.

A Project Management Office (PMO) should be created that reports directly to the newly formed Agency-wide Information Systems Steering Committee, as well as to the SCVHHS Chief Information Officer, for the reasons described below. The PMO should work with the Steering Committee to evaluate the justification and estimated cost of proposed IT projects. Once projects are approved, PMO staff should meet regularly with Application Services staff, who serve as project managers for IT projects. To the extent that conflicts exist between project managers and end users, the PMO should mediate them. The PMO should also track actual project costs and time against original proposals, and develop criteria for cost and time overruns that would trigger PMO inquiries to the project managers as to the reason for the overruns. The PMO would evaluate the basis for overruns, and recommend corrective measures to the Chief Information Officer. The PMO would also be responsible for monitoring, evaluating and reporting project benefits within six months of a project's conclusion. Finally, the PMO would prepare periodic reports on its activities, which would be provided to the Steering Committee, for its own information in monitoring SCVHHS project performance.

In creating a PMO, SCVHHS would need to recruit an executive-level manager to head the office. Audit staff estimate that this position would cost approximately \$190,000 to \$270,000 per year, including salary and benefits. However, this would eliminate the

need for the Project Manager within Application Services, and due to upcoming retirements in the Department, other funds may be become available that could also be shifted to the PMO. The newly formed PMO would also eliminate the need for the Project Manager within Application Services. The PMO should also be staffed with two additional positions that would bring management experience, understanding of the complexity of projects, and technical background to provide adequate assistance to the head of the PMO. The positions suggested are a Senior Management Analyst II at \$135,132 per year, and Information Systems Analyst II at \$133,109 per year, inclusive of benefits. However, audit staff believe the Department could shift resources and transfer these positions from within Application Services and possibly elsewhere.

Such detailed oversight of IT projects appears necessary. A review of projects where a Technical Services Liaison assignment was required found that in at least one-third of the projects, project completion was postponed from the date originally assigned, indicating that project delays are regularly occurring.

CONCLUSION

Although there is a County-wide Committee responsible for prioritizing funding of information systems projects, that prioritization is only for projects in General Fund departments. There is no consideration exercised over SCVMC Enterprise Fund projects, despite the huge operating subsidy provided by the General Fund to the Enterprise Fund. Systems development across SCVHHS is not centrally planned and the SCVMC IT Governance Committee has not assumed responsibility for prioritizing all SCVHHS IT projects. Furthermore, insufficient information is provided by sponsoring projects on the cost, funding source and operational benefits of proposed projects, sufficient to permit such projects to be prioritized. There is also no centralized process to monitor approved IT projects against budgeted costs and timelines.

RECOMMENDATIONS

The County Executive should:

- 6.1 Expand oversight of the Information Technology Executive Committee to include prioritizing information technology projects funded within the Santa Clara Valley Medical Center Enterprise Fund along with all other projects, based on the substantial subsidy provided to the Enterprise Fund by the General Fund. (Priority 1)

The Santa Clara Valley Health and Hospital System should:

- 6.2 Immediately establish the Agency-wide Information Systems Steering Committee (ISSC), pursuant to SCVHHS Policy #512.10, to review, plan and coordinate the development and ongoing support of SCVHHS information systems and networks. One of the top concerns of the ISSC should be ensuring

that electronic health record technology (EHR) meets the criteria for meaningful use and registering for the EHR Incentive Programs. (Priority 1)

- 6.3 Require more detailed information on Project Request Forms to ensure that each and every SCVHHS IT project is properly costed with labor and equipment (including SCVHHS Information Systems Department staff costs to implement and maintain projects), ongoing costs are identified along with savings, and that the operational benefits and success of each project can be measured quantitatively. (Priority 1)
- 6.4 Create a Project Management Office that reports to the SCVHHS Information Systems Steering Committee and Chief Information Officer and has the following responsibilities:
- a. Developing written procedures on managing IT projects ;
 - b. Providing guidance to staff on estimating cost and benefits when filling out Project Request Forms; and
 - c. Monitoring the progress of approved projects against budgeted costs and timelines, assisting project managers in keeping projects on track (such as mediating conflicts with end users) and reviewing the reasons that projects have fallen behind and suggesting corrective measures.
 - d. Monitoring, evaluating and reporting project benefits within six months of a project's conclusion. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementing these recommendations would result in better coordination of projects and better allocation of resources across SCVHHS. Furthermore, if the Agency-wide Information Systems Steering Committee (ISSC) is immediately established, it could help the County obtain substantial incentive payments, avoid payment adjustments to its Medicare reimbursements and improve the quality of patient care by ensuring that electronic health record technology (EHR) meets the criteria for meaningful use and registering for the EHR Incentive Programs, preferably in 2011 but no later than 2014.

In creating a Project Management Office, SCVHHS would need to recruit a manager to head the office and report to the Information Systems Steering Committee and Chief Information Officer. Audit staff estimate that this position would cost approximately \$190,000 to \$270,000 per year, including salary and benefits. However, due to upcoming retirements in the Department, funds may become available that could be shifted to the PMO. The PMO should also be staffed with two additional positions that would bring management experience, understanding of the complexity of projects, and technical background to provide adequate assistance to the Project Manager. The

Section 6. Information Technology Governance

positions suggested are a Senior Management Analyst II at \$135,132 per year and Information Systems Analyst II at \$133,109 per year, inclusive of benefits. However, audit staff believe the Department could shift resources and transfer these positions from within Application Services and possibly elsewhere.


Administrative Policies and Procedures

HHS #512.10

May 20, 2010

TO: SCVHHS Executive Management Group

FROM:

Central Services
Policies
and
Procedures
SUBJECT: Information Systems Development
POLICY:

The Information Systems Steering Committee (ISSC) is responsible for reviewing, planning, and coordinating the development of, and ongoing support for Health and Hospital System (HHS) computerized information systems and networks. The ISSC reviews and approves all requests for new systems, networks and system staff consistent with County Policies. This function is performed under the auspices of the ISSC's Project Evaluation and Prioritization (PEP) group. Requests for significant changes to existing systems and/or networks must also be reviewed by the ISSC. The ISSC reviews all systems project proposals and makes recommendations to the Executive Management Group (EMG). The ISSC establishes systems standards, security standards, and project implementation guidelines. Annually, the ISSC reviews the status of all existing SCVHHS systems and networks.

The ISSC is composed of members approved by EMG, or their designees, and provides representation for all HHS Departments. Voting Members of the ISSC include, but have not been restricted to: Chief Financial Officer; Chief Information Officer; Director, Clinical and Support Services; SCVMC Director Critical Care and OR Services; Nurse Manager Nursing IS; Executive Director, SCVMC - Ambulatory Managed Care; Director, Patient Business Services; Director, Planning and Business Development; Public Health Director; Mental Health Director; Alcohol and Drug Services Director; Associate Medical Director Clinical Informatics; Chair Medical Informatics Committee; and Staff Physician. The ISSC is chaired by the Chief Information Officer.

PROCEDURE:
Responsible Party
Action

Requesting Department

Obtains conceptual approval from Department Manager. Sponsorship of Project Concept by an ISSC member is strongly encouraged. If preliminary approval granted by Department Manager, contacts Information Services (IS) to obtain guidelines and assistance in developing written project proposal for evaluation by PEP group and final ISSC review and approval.

Project Evaluation and Prioritization (PEP) group

Regularly reviews request and schedules project proposals for ISSC review. Projects may also be subject to review and approval by the County. Information Services coordinates all such approval.

Issued: 06/09/1995

Revised: 05/20/2010

Charter of the SCVMC Information Technology Governance Committee

I. Name

This Charter constructs a standing committee officially named the Santa Clara Valley Medical Center (VMC) Information Technology Governance Committee.

II. Mission

VMC will utilize advanced clinical information technology to achieve our mission of providing high quality, safe, cost-effective, patient-focused care and services.

The IT Governance Group Committee will provide guidance to:

- Advance patient safety and quality of care
- Improve coordination of care across the continuum
- Enhance patient, family and staff satisfaction
- Improve the delivery of timely, efficient and cost-effective care
- Optimize financial processes
- Enhance evidence-based clinical and administrative decision making
- Ensure compliance with all regulatory and accreditation standards

III. Responsibilities

The duties of the IT Governance Committee are as follows:

- Make recommendations for approval and funding to the Executive Leadership Group (ELG) on new technologies, prioritization of projects, etc. to support the organizational goals and objectives.
- Determine and consistently apply criteria for prioritizing and deciding on IT investments across VMC.
- Assist or facilitate with project sponsors to ensure that all proposed IT initiatives/projects are approved and delivered on time and within budget.
- Develop and maintain a forum for sharing responsibility and ownership of investment across VMC departments.
- Create and monitor IT investments as outlined in the VMC business and strategic plans.
- Review and approve significant changes related to IT projects.
- Look for opportunities to benefit from enterprise solutions, which best meet the business needs of VMC IT and the respective departments.
- Conduct periodic project performance reviews, i.e., assessment of system implementation progress and adjustments that may be needed.
- Provide stewardship for and updates to the IT Tactical Plan (from the IT Strategy) based on new initiatives, changed and/or delayed initiatives, resource changes, etc.
- Ensure that IT systems are implemented with benefit realization plans defined at the outset and that performance to those expectations is assessed at appropriate intervals.
- Ensure broad user input and socialization of information occurs and monitors end user satisfaction with IS services.

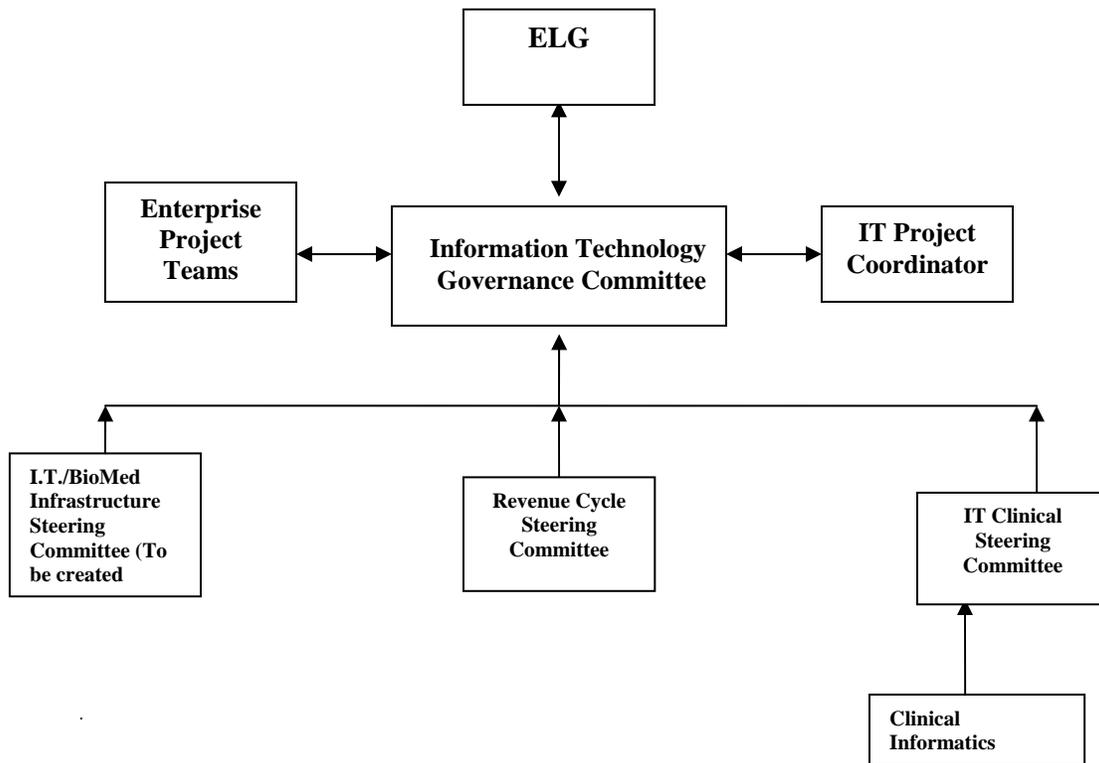
IV. Duration

The IT Governance Committee shall be a standing committee that shall be in existence until the VMC Executive Leadership Group (ELG) discontinues it.

V. Establishment and Organization

Figure A illustrates the organizational structure for the IT Governance Committee. The creation, composition, roles and responsibilities for each committee chair reporting to the IT Governance Committee shall be documented and maintained in a separate document entitled, Roles, Responsibilities and Authorities.

Figure A. Coordination and Reporting Structure for VMC IT Proposals



The VMC ELG shall elect which departments are represented on the IT Governance Committee.

VI. Management Relationships and Duties

A. Official Members

- Voting Committee membership shall be comprised of senior business leaders throughout VMC. If for some reason, a member is unable to commit to participation in the IT Governance Committee (s)he shall designate another senior level business leader from within the business line. Other meeting attendees may include non-voting members (e.g. IT and IT PMO staff). Committee members are responsible for:
 - Attend the IT Governance Committee meetings regularly
 - Ensure integration of the work of their steering committees is brought forward to the IT Governance Committee
 - Communicate decisions and project prioritizations back to their steering committees and departments

B. The Chair(s)

The Information Services CIO and a voting member of the IT Governance Committee will serve as the IT Governance Committee Chair(s). The Chair(s) shall have the authority to delegate functions and responsibilities to the extent that this Charter does not expressly prohibit such delegation.

The Chair(s) shall set agendas for, and preside over, meetings of the IT Governance Committee. The Chair(s) shall ensure that the actions of IT Governance Committee meetings are recorded and distributed.

C. Meetings

The Chair(s) shall establish a schedule for the regular meeting of the IT Governance Committee.

D. Voting Members of the IT Governance Committee

Directors of the following principal departments/offices are voting members of the Committee:

- Chief Financial Officer (CFO)
- Chief Information Officer (CIO)
- Chief Nursing Officer (CNO)
- Director, Planning & Business Development
- Deputy Director, Technical Services
- Medical Director, Inpatient Services
- Co-Chair [Physician], IT Clinical Steering Committee
- Director, Clinical and Support Services
- Co-Chair [Nursing], IT Clinical Steering Committee
- Deputy Director, SCVMC Ambulatory and Managed Care Services
- VMC Ambulatory Medical Director
- Business owner, IT/Biomed Infrastructure Steering Committee

Non-voting Members of the Committee

- IS Liaison, Revenue Cycle Steering Committee
- IS Liaison, IT Facilities Steering Committee
- IS Liaison, IT Clinical Steering Committee

VII. Quorums and Voting

A simple majority of those voting in favor of the motion shall pass a motion. The IT Governance Committee Chair(s) shall only vote in the event of a tie vote among IT Governance Committee voting members. A minimum of 4 voting members need to be present at meeting.



IT Project/Initiative Request Form

[Insert Project Name Here – then remove brackets]

Project/Initiative Request Information:

Project Request Date:	
Project Name:	
Requesting Department:	
Requestor's Name (Dept):	
IS Group Manager's Name: Initiative/Project Leads:	
Executive Sponsor: (EMG Member)	
Strategic Goal: <i>Please indicate which organizational strategic goal the project supports (VMC projects only) Double-click box to check box.</i>	<input type="checkbox"/> Demonstrated Quality <input type="checkbox"/> Achieve Cost Effective Scale & Scope <input type="checkbox"/> Realize Integrated Health System <input type="checkbox"/> Ensure Positive Customer Experience
	<input type="checkbox"/> Drive Financial Improvement <input type="checkbox"/> Supports Health Reform & 2010 MediCal Waiver <input type="checkbox"/> Advances Professional Excellence <input type="checkbox"/> Maximize Technology to Enable Integration, Quality, Innovation, Efficiency & Positive Customer Experience

Business Need:

Project Description: <i>What is the project?</i>	
Business need/benefit (to the organization), what the project will accomplish, and importance (priority). If mandated, please provide a copy of the law/regulation text.	

Success Criteria / Risk:

Success Criteria: Quantifiable <i>Critical Success Criteria that measures success of the project</i>	
Number of Users / Departments impacted / involved:	
What are the identified Risks associated with this project?:	



IT Project/Initiative Request Form

[Insert Project Name Here – then remove brackets]

Timeframe:

Desired Start Date: <i>Please explain the basis for this date.</i>	
Desired Go-Live Date:	
Anticipated Project Completion Date:	

Funding/Return on Investment Information

Project Funding: <i>Identify budget index number and funding amount.</i>	If Capital Project: FABC#: _____ If Operational Project: Cost Center #: _____ Total Budgeted Amount (including Capital / Operational funds): \$ _____
Healthcare Data movement: <i>(import, export conversion) or reporting anticipated? Please explain.</i>	

Project/ROI Type: <i>Double-click box to check box.</i>	<input type="checkbox"/> Revenue Enhancement <input type="checkbox"/> Cost Management (Labor) <input type="checkbox"/> Cost Management (Non-Labor)	<input type="checkbox"/> Patient Safety <input type="checkbox"/> Mandate <input type="checkbox"/> Other - please describe below
<i>(insert Description and/or comments)</i>		

Revenue/Cost Schedule	Q1	Q2	Q3	Q4	Total
Revenue					
Costs					
Labor					
Equipment					
Others					
Total Benefit (Expense)					

Resources:

Anticipated Departmental Resources Needs:	Sample... <ul style="list-style-type: none"> Super User Testing Etc.
Departmental Project Contacts for implementation tasks and testing:	<ul style="list-style-type: none"> Completion of tasks – Dept Name Testing – Dept Name



IT Project/Initiative Request Form

[Insert Project Name Here – then remove brackets]

Anticipated IT resource needs:	<p>Sample...</p> <ul style="list-style-type: none"> • Field Support • Server Group • Networking • Interface Analyst • IS Project Manager • Application Analyst • Database • Reporting • Etc.
Hardware & Software Requirements <i>(if known, identify and quantify)</i> with Deliverable Dates. Please attach any vendor documentation:	<p>Sample...</p> <ul style="list-style-type: none"> • 2 servers – Installed & Configured by January 15, 2007 • Up to 1TB of SAN storage – Installed & Configured by January 15, 2007 • PC Desktop application for 45 workstations – Installed by February 28, 2007 • Remote access to the server for the vendor - January 15, 2007
Number of devices impacted:	
Number of Net-New devices (PCs, printers, etc.) budgeted and furnished by the Department – include both SW licensing and HW costs	

Support Post Implementation:

Specify Departmental 2nd Level Support resource availability post implementation. <i>(Troubleshooting, closure of Remedy Cases, etc.)</i>	<p>Sample...</p> <p>Joe Smith will be the second level support for troubleshooting application issues. Joe is available M-F from 8a – 5p. After hour support will be handled via</p>
Specify IT Maintenance and Support needs post Implementation.	<p>Sample...% FTE</p> <ul style="list-style-type: none"> • Field Support • Server Group • Networking • Interface • Application Support • Database Support • Reporting • Etc

Project/Initiative Work Plan: Milestones/Steps for Initiative Planning and Implementation

Planning/Implementation Milestones/Steps	Estimated Completion Date
<i>(insert next steps)</i>	



IT Project/Initiative Request Form

[Insert Project Name Here – then remove brackets]

For Reviewer Use Only:

Date Received	
Project Number Assigned	
IT Steering Committee Approval	<input type="checkbox"/> Yes Date: <input type="checkbox"/> No Date:
IT Steering Committee Priority	
ITGC Approval. Date of Approval	<input type="checkbox"/> Yes Date: <input type="checkbox"/> No Date:
ITGC Priority	
Recommendations:	<input type="checkbox"/> Proceed <input type="checkbox"/> Postpone <input type="checkbox"/> Eliminate Comment:

Section 7. Medical Coding Organization and Staffing

Background

- To obtain reimbursements for medical care provided by the Santa Clara Valley Medical Center (SCVMC) from government and private payers, specific codes must be entered on bills and submitted to payers. In many cases, the amount of reimbursement for a service or supply differs depending upon how the service or supply is coded. Charge entry personnel enter these codes in an inpatient or outpatient system, and medical coding personnel who are specially trained and certified update or correct codes and verify coding accuracy. Professional coders in the Compliance Unit also review patient files for internal or external auditing purposes.

Problem

- The charge entry and coding functions are scattered throughout SCVMC, with charge entry and coding personnel reporting to a variety of supervisors and managers, many of whom are not professional coders. Staff who enter charges and codes are classified in several different job titles throughout the hospital, and they are paid at substantially different rates. Therefore, their qualifications and abilities vary, and some coding units are short staffed. Furthermore, the hospital's chargemaster is not adequately updated to ensure that all charges reflect current pricing.

Adverse Effect

- Since charge entry and coding are not centralized, a single manager is not responsible for overseeing these functions and addressing coding problems. In units where there is a shortage of coders, bills are delayed. For example, in Medical Records alone, approximately \$45 million of bills are delayed by two weeks pending coding. When bills are "undercoded," the County loses revenue, and when bills are "upcoded," the County must expend additional time and money to refund overpayments, and may face fees or penalties for not complying with coding rules. Additionally, failing to update the chargemaster could lead to further errors in coding and billing and some charges not being fully reimbursed.

Recommendations

- Although charge entry and medical coding should continue to be physically located throughout SCVMC, these functions should be centralized under one manager, who ideally would have some coding expertise, to improve the education, oversight and efficiency of coders and thereby reduce errors that cause delays in billing, loss of reimbursements, and potential fees and penalties. The pay rates and job classifications should be standardized, and vacancies should be filled immediately to avoid billing delays. The chargemaster should be updated, and chargemaster policies and procedures should be carefully reviewed and revised to ensure that items and charges are current for proper coding and billing.

The Medical Coding Function

Medical coding is the process of reviewing patient medical records and assigning codes to patient diagnoses (International Classification of Diseases, or ICD-9, and Diagnostic Related Group codes, or DRGs) and procedures (Current Procedure Terminology codes, or CPTs). Medical coding is arcane and ever-changing, and requires specialized training. Coding differs across practice areas. For example, inpatient professional fee coding is different from emergency or outpatient radiology coding. The American Academy of Professional Coders (AAPC), the largest credentialing organization for medical coders, offers specialty credentials in 19 different fields of expertise, in addition to its six core certifications for physician practice, outpatient hospital/facility, payer, interventional radiology and cardiovascular, certified professional medical auditor, and certified professional compliance officer.

One of the most important functions of medical coding is for reimbursement. In order to obtain reimbursements from government payers (i.e., Medicare and Medi-Cal) and private payers (i.e., commercial insurance companies), medical codes must be entered for every professional service, procedure, and supply provided to both inpatients and outpatients. These medical codes are translated into reimbursement amounts on bills, which are then submitted to the payers for reimbursement. Incorrect code assignment results in denied payments. If denied payments are not reworked in a timely fashion, they can go unpaid because they are deemed too old. Moreover, incorrect codes could in some cases be deemed compliance violations and be subject to penalty fees.

The Centers for Medicare and Medicaid Services (CMS), which administers Medicare, Medicaid, and the Children's Health Insurance Program, mandates frequent changes in coding rules that Santa Clara Valley Medical Center (SCVMC) must keep up with in order to obtain reimbursements.

Decentralization of Medical Coding at SCVMC

After a patient receives any kind of inpatient or outpatient service, every evaluation, procedure, surgery, supply, medication, injection, and laboratory test provided to that patient will have a code assigned to it for charging and reimbursement purposes. These codes are generally preprinted on a charge ticket (a notable exception is inpatient supplies, which are charged using a system of "bingo cards" and yellow stickers with item numbers only, as described in Sections 4 and 5). Charge entry personnel enter these codes into the Signature system (inpatient), the Invision system (outpatient), or the Unicare system (mental health outpatients). Some of these charge entry personnel have coding experience and/or certification, but this is not a requirement of their job. In some cases, professional coding personnel in the Charge Description Master Unit are consulted to obtain updated or correct codes or to verify coding accuracy, and professional coders in the Compliance Unit may review a patient's file for internal or external auditing purposes. The Health Information Management Services Unit (also known as Medical Records) reviews every discharged inpatient's file and codes the charges.

Charge entry and coding personnel are thus scattered throughout nine SCVMC units, including outpatient clinics, charge management, compliance, emergency, medical records, mental health, professional fees billing, radiology, and resource management. A separate supervisor oversees each specialty, and staff report to different managers. Although all of these departments are responsible for entering or verifying correct codes in order to assure proper billing and reimbursement, many managers of these departments are not professional coders. As is shown in Table 7.1, there are at least six job classifications for charge entry personnel and five job classifications for coding personnel. Depending upon which job classification an employee is assigned, starting salaries range from \$38,921 to \$75,132 (regardless of whether or not the employee has a professional coding certification), and top out at between \$46,912 and \$91,360.

Table 7.1
Comparison of Job Classification and Salary Range for
Charge Entry and Medical Coding Personnel

Unit	Job Classification	Number of FTEs	Salary Range
Charge Entry:			
Ambulatory	Supv. Health Services Representative II	1.0	\$53,408 - \$64,900
	Sr. Health Services Representative II	1.0	\$44,572 - \$53,837
	Health Services Representative	11.0	\$40,015 - \$48,291
Emergency	Health Services Representative	2.0	\$40,015 - \$48,291
	Sr. Health Services Representative	4.0	\$44,572 - \$53,837
Resource Management	Office Specialist III	1.1	\$38,921 - \$46,912
	Operating Room Clerk	1.5	\$40,015 - \$48,291
SUBTOTAL	6 Classifications	21.6	
Medical Coding:			
Charge Master	Revenue Control Analyst	4.0	\$41,637 - \$78,570
Compliance	Revenue Control Analyst	2.0	\$41,637 - \$78,570
	Sr. Health Care Financial Analyst	1.0	\$75,132 - \$91,360
Medical Records	Health Information Technician I	3.0	\$42,919 - \$51,817
	Health Information Technician II	5.7	\$53,335 - \$64,453
Mental Health	Revenue Control Analyst	2.0	\$41,637 - \$78,570
Professional Fees	Revenue Control Analyst	6.0	\$41,637 - \$78,570
Radiology	Health Care Program Analyst II	1.0	\$67,486 - \$82,060
	Health Information Technician II	3.0	\$53,335 - \$64,453
SUBTOTAL	5 Classifications	27.7	
TOTAL	11 Classifications	49.3	\$ 38,921 - \$91,360

Source: SCVMC and County of Santa Clara Job Specifications

Of the eleven job classifications, only the Revenue Control Analyst classification specifically requires professional coding certification. The Health Information Technician (HIT) I position mentions that the skills required to perform the function may be acquired through obtaining a Registered Health Information Technician (RHIT) or Registered Health Information Administrator (RHIA) credential. However, these credentials do not demand the same expertise that a professional coding certification requires and in any event are not a required employment standard. The HIT II position also mentions the RHIT and RHIA certifications, as well as the Certified Coding Specialist (CCS) credential; however, as with the HIT I classification, none of these certifications is a specific requirement or employment standard for the position. Moreover, pay raises are not necessarily given for earning a professional certification. Nevertheless, hospital managers reported that the certified coders have superior skills, and most believe that certification is important and should be rewarded with higher salaries. In many cases, charge entry and coding employees have taken the initiative to take specialized training at their own expense and earn coding credentials. Staff reported that certified coders in most hospitals and medical centers get paid more than coders without certification.

Centralization of Oversight

Charge entry and coding personnel in different units use different types of records, resources, software, coding languages, and processes, so it is appropriate to have these employees physically located throughout the hospital. However, centralizing the management would offer certain advantages, such as strengthening the oversight of the coding function and allowing coders to cross-train in different specialties, to the extent possible since physician coders and facility coders require different certifications. When financial counseling, admitting and registration staff were brought together in one unit, known as Patient Access, staff immediately recognized various inefficiencies, including differing policies, procedures and practices that had not been previously identified.

With the exception of Compliance, which must remain independent to ensure there is not any conflict of interest while monitoring processes and documentation/charge audits, SCVHHS should centralize SCVMC charge entry and medical coding under one manager, who is a certified coder, while staff coders and their supervisors continue to be physically located in different units. The ideal candidate would be a certified coder with extensive knowledge and experience coding, as well as supervising and training employees. The job specification for the new position should require one of the following certifications: Certified Professional Coder (CPC) or Certified Professional Coder-Hospital (CPC-H) from the American Academy of Professional Coders (AAPC); or Certified Coding Specialist (CCS) or Certified Coding Specialist-Physician Based (CCS-P) from the American Health Information Management Association (AHIMA). Additionally, the job specification should require knowledge of facility fee charge capture and reimbursement methodologies, including DRG, AAPC, CPT, ICD, HCPCS, and Medi-Cal rules and regulations; knowledge of healthcare compliance audit requirements, principles and techniques; knowledge of ICD-9/CPT, CPT, HCPCS and

DRG coding rules; and knowledge of Medicare and Medi-Cal documentation and coding rules and guidelines. SCVHHS Human Resources should work with the County Employee Services Agency to create this job specification, and the staffing augmentation should be made on a cost neutral basis by deleting vacant funded codes elsewhere in the organization.

In addition, SCVHHS Human Resources should work with the County Employee Services Agency to standardize the job classifications and pay scales for the hospital's other charge entry and coding personnel. Higher pay should be associated with better skills, earned certifications and number of years employed, rather than the department where a coder works, to encourage high morale and retention, and mandated coding certification should be considered for new hires to minimize penalties and maximize revenues.

Coding Issues

Coding Delays

At least two units – Medical Records and Ambulatory – have unfilled vacancies. When there are not enough coders, bills cannot be processed in a timely way, and reimbursements are delayed. For example, in Medical Records alone, approximately \$45 million of bills are delayed by two weeks pending coding, and there may be additional delays in coding in other units. SCVHHS staff reported that significant progress has been made over the past four months, as the discharged-not-final-billed totals (i.e., admissions pending coding) decreased from \$85 million on September 30, 2010 to \$34 million on January 31, 2011, which represents five days of hospital charges and is reportedly at the lowest level since the \$32 million seen at the end of FY 2000-01. Filling vacancies with qualified coders who can work the backlog and stay on top of the growing coding demands could help continue this positive trend and prevent many delays. SCVHHS Human Resources should work with the County Employee Services Agency to immediately fill vacancies to increase the number of coders in SCVMC units, such as Medical Records, where there are coding backlogs.

Coding Errors and Compliance

Errors in coding can result not only in lost reimbursements, but also can lead to millions of dollars in penalty fees. Many coding compliance issues may be prevented by improved communication and education of medical staff as well as coders, since many coding errors are caused by the failure of doctors to accurately document the details and medical necessity for procedures. Charges may be held and not submitted for reimbursement until compliance issues can be resolved, and if the issues take a long time to resolve, it may become too late to bill. Significant losses have in fact occurred due to these kinds of documentation and coding issues; however, due to the confidential nature of these matters, specific details regarding these losses have been omitted. The hospital's Compliance Officer is working with many units and a multidisciplinary team to change policies and procedures and to educate physicians and

coders on regulations for proper coding and documentation to avoid similar problems in the future. These efforts to ensure compliant coding could be more effective if a single manager, as previously recommended, were responsible for coding.

Software Troubleshooting

Charge entry staff reported that in some instances, the software used for charge entry will round up the suffix of a code entered and assign a code that is incorrect (e.g., a procedure that is supposed to be coded as 500.09 becomes 500.1). Since the rounded up code is incorrect, it will end up being denied or not permitting proper reimbursement. SCVHHS Information Services should immediately fix this software to avoid costly errors, delays in billing, or penalties for compliance issues resulting from inadvertent coding errors. All charge entry software systems should be audited and updated on an ongoing basis to ensure that they are compatible with code changes.

Standardized Coding System

Although particular codes differ depending upon specialty, SCVMC should consider standardizing the coding system when its financial situation improves. Currently, at least two different systems are being used for coding, including the 3M system in Medical Records, and the RMS (Radiology Management System) in Radiology. Moving to one automated system would help departments like Radiology move from an outmoded paper entry system to a more updated and efficient electronic coding system, and would help SCVMC to integrate the coding function throughout the organization.

New Codes

SCVMC has approximately 1,000 days to prepare for the October 1, 2013 transition to a mandated new code set that is greatly expanded. To ensure continuous code compliance and to avoid coding errors and lost reimbursements as a result of errors in implementing the new code set, SCVMC should implement a comprehensive training program for all coders throughout the organization, as well as for medical providers. The cost of training would be offset by the minimization of billing delays, errors and lost reimbursements, which would likely occur without such training. SCVHHS staff report that an RFP has been initiated to identify a vendor to assess, plan and lead the implementation of the new ICD-10 codes, and negotiations with the selected vendor are currently in progress. Additionally, Compliance is sponsoring audio conferences for coding staff for educational purposes.

Chargemaster Issues

SCVMC's Charge Description Master (CDM), or chargemaster, is a comprehensive listing of more than 55,000 active items that could be billed to a patient or payer, and includes: facility utilization and room occupancy for inpatients and outpatients, procedures and related professional fees, diagnostic tests, drugs, devices, and medical

supplies. To make sure that it receives the maximum allowable reimbursements, particularly Medicare payments, SCVMC must ensure that all service line items are accounted for in the CDM and that the correct code is assigned to each service-line item. An inaccurate or incomplete CDM can cause payment delays and administrative costs associated with correcting coding errors. Even though SCVMC uses “scrubbing” software (Craneware) to identify coding errors prior to submitting claims, it does not avoid the administrative costs incurred to deal with the error and rework the claim. CDM items with incorrect or outdated codes may also present a significant compliance risk and expose the County to expensive compliance penalty fees, which ultimately are a General Fund expense.

Reviewing and Updating the Chargemaster

It is essential that every service or supply that might be offered to a patient in any inpatient or outpatient unit must be listed on the chargemaster; otherwise, it cannot be charged and will not be reimbursed. Similarly, the chargemaster must be updated frequently to reflect changes in the costs, and therefore the charges for services, supplies, devices, medications, facility utilization and room occupancy. Additionally, the chargemaster must be constantly revised to incorporate coding changes dictated by CMS, as well as changes in procedures, programs, technology, billing regulations and reimbursement rates. SCVMC is responsible for establishing internal controls to ensure the correct use, maintenance and revision of its CDM. Audit staff was told that the hospital’s chargemaster is routinely updated every July 1 and a certified coder from the CDM Unit conducts internal audits of the CDM to make sure pricing is consistent across all departments. In addition, the Craneware software system continuously reviews charges to identify any codes that have been added, deleted, or changed, and the CDM Unit monitors the chargemaster following receipt of bulletins on Medicare and Medi-Cal changes.

Despite the CDM Unit’s reported efforts to maintain the CDM and stay current with coding and pricing changes, audit staff’s analysis of the chargemaster dated November 8, 2010, which was provided by the CDM Unit, revealed that the CDM is not adequately updated to ensure that all charges reflect current pricing. The analysis showed that of 66,347 total items listed on the chargemaster, 11,128 had an effective year of 1900, which is the default date given when an effective date is not applied by CDM staff. According to SCVHHS, there are times when they do not require or want an effective date. For example, if they want to charge for items with past dates of service, they would not want to include an effective date in the system so that the pricing of these items can be found in the CDM, charged and reimbursed. Of the remaining 55,219 items, only 50 percent (27,611 items) had an effective date of July 1, 2010 or later. The remaining 27,608 items apparently had not been updated to indicate pricing had been reviewed, even if it did not change, as of July 1, 2010. Sixteen percent (8,663 items) of the total listed on the current CDM had effective dates before 2009, and three percent (1,664 items) had not been updated for 23 or more years, showing an effective year of between 1984 and 1987. According to SCVHHS, many codes remain the same year after year, so there is no need to change the effective date for these items. They reported that they change

the effective date only when there is a change in price. However, if in fact pricing is reviewed annually per SCVHHS policy, the chargemaster should reflect this with the date of review becoming the new effective date.

Inaccurate Charges on the Chargemaster

Moreover, when audit staff looked at a very small sample of four items from the list of top 125 supply items by total spend referenced in Section 4, one of these items (“Lap Chole Kit Bladeless”) had an incorrect charge assigned. This item was listed on the current CDM with an effective date of August 1, 2010 and a charge of \$533.60; however, audit staff learned from Resource Management that the cost of this item as of July 1, 2010 was \$244.24. Using the mark-up formula provided by the CDM Unit (see Attachment 4.4), the correct charge for this item should be \$1,049.67. If the same number of Lap Chole Kit Bladeless items that were purchased in FY 2009-10 (324 items) were purchased and charged in FY 2010-11, this erroneous listing would result in a loss of \$167,207 in charges. While this analysis is not based on a statistically significant sample because audit staff did not have time to conduct a thorough analysis of the 55,219 items, it suggests the potential extent of lost charges and reimbursements that could occur if the CDM is not fastidiously updated on a timely basis. Since approximately \$40 million is spent annually on medical supplies, it is not difficult to see how tens of millions of dollars could be lost annually if items are excluded from the CDM and not charged or charged incorrectly.

Policy on Chargemaster Review and Maintenance

SCVHHS Policy #579.0 governs “Review and Maintenance of ChargeMasters (CDM)” (Attachment 7.1). The policy states that SCVHHS Finance staff and division/cost center managers are required to coordinate CDM maintenance and revision activities on an ongoing basis. The policy requires SCVHHS Finance staff at regular intervals to review, verify, and update the chargemaster. However, since it appears that the CDM has not been completely or accurately updated, SCVHHS Finance should immediately update the chargemaster to capture all necessary items at the correct charge. Furthermore, since SCVHHS Policy #579.0 is dated February 7, 2007, and SCVMC Policy #217.0 requires that all policies and procedures be reviewed and/or revised at least every three years, SCVHHS Finance should review and revise, if necessary, the chargemaster policy.

Despite this policy, several SCVMC units reported that communication with SCVHHS Finance on the chargemaster was inadequate. While SCVHHS reported having a form that is filled out for every add, revision or deletion to the CDM, personnel in these units stated that there were no specific procedures in place for informing the CDM Unit about new or deleted services and supplies, or new prices for services and supplies. According to SCVHHS, the CDM Unit is working on converting from a paper form to an electronic form, but the status of this effort is unknown. There was also an inadequate exchange of data and financial reports upon which facility fees and room charges should be based. SCVHHS Finance should establish specific procedures for

submitting change requests for new, deleted or revised items, procedures and services and for exchanging information and coordinating charges in the chargemaster.

CONCLUSION

The charge entry and medical coding functions are essential to ensure that sound claims are submitted to payers in order to get the maximum allowable reimbursements and to avoid penalties for errors and compliance issues. However, coding at SCVMC is not centralized under one manager, and many of the managers who supervise these functions are not coders. Coding job classifications and pay rates differ throughout the organization, and there is no pay differential for certification. Vacancies contribute to delayed billing and delayed or lost reimbursement, and the chargemaster does not reflect the correct and current pricing for all items. To address these problems, management and oversight of coding personnel should be centralized, coder job classifications and pay rates should be standardized, coding vacancies should be filled, and the chargemaster should be updated.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 7.1 With the exception of Compliance, centralize SCVMC charge entry and medical coding under one manager, while charge entry and coding personnel and their supervisors continue to be physically located in different departments or units. (Priority 1)
- 7.2 Work with the County Employee Services Agency to:
 - a. Create a job specification for the coding manager that requires a professional coding certification and knowledge of coding rules and guidelines, facility fee charge capture and reimbursement methodologies, and healthcare compliance audit requirements;
 - b. Standardize the job classifications and pay scales for the hospital's other charge entry and coding personnel. Higher pay should be associated with better skills, earned certifications and number of years employed to encourage high morale and retention, and mandated coding certification should be considered for new hires to minimize penalties and maximize revenues; and
 - c. Immediately fill vacancies to increase the number of coders in SCVMC units, such as Medical Records, where there are backlogs of bills. (Priority 1)
- 7.3 Immediately fix the software used for charge entry, so that it may accommodate the number of digits necessary to properly code services or supplies that have

- extended suffixes, and audit and update charge entry software systems on an ongoing basis to ensure they are compatible with code changes. (Priority 2)
- 7.4 Consider standardizing the hospital's coding system by moving to one automated system when its financial situation improves. (Priority 3)
- 7.5 Implement a comprehensive training program for medical and coding staff on compliance issues and the upcoming transition to a new code set. (Priority 2)
- 7.6 Ensure that the chargemaster is current and complete by:
- a. Immediately updating the chargemaster to capture all necessary items at the correct charge;
 - b. Reviewing and revising, if necessary, SCVHHS Policy #579.0 on Charge Description Master review and maintenance, which is more than three years old; and
 - c. Establishing specific procedures for submitting change requests for new, deleted or revised items, procedures and services, and for exchanging information and coordinating charges in the chargemaster. (Priority 1)

SAVINGS, BENEFITS AND COSTS

By implementing the recommendations above, SCVMC would continue its reported progress in reducing the backlog of charts pending coding and reduce coding errors, thereby increasing reimbursements and decreasing penalty fees. Filling funded vacancies would not create an additional cost and would minimize delays in billing and reimbursements. Similarly, expanding compliance education and training programs for medical and coding staff would help avoid expensive billing errors. Furthermore, standardizing coder job classifications and pay scales would help improve staff morale and retention, and centralizing them under one manager would provide strengthened oversight of the coding function and added cross-training opportunities when possible. Finally, updating the chargemaster and strengthening policies and procedures for changing items and coordinating prices in the chargemaster would help ensure that all services and supplies are properly charged, coded and reimbursed.

Administrative Policies and Procedures

HHS #579.0



February 7, 2007

TO: SCVHHS Executive Management Group

FROM: Acting Executive Director, SCVHHS

SUBJECT: Review and Maintenance of ChargeMasters (CDM)



Central Services
Policies
and
Procedures

BACKGROUND:

The ChargeMaster is also known as the Charge Description Master (CDM). It represents a master list for charges related to all services (including professional fees), supplies, devices, medications, facility utilization and room occupancy for inpatients and outpatients of Santa Clara Valley Health & Hospital System (SCVHHS). At a minimum, the CDM must include the following elements:

- Department/Performer code or item numbers
- Healthcare Common Procedure Coding System (HCPCS) and revenue codes
- Current Procedural Terminology (CPT) codes linked to service codes
- Service types
- Insurance category codes
- Item or charge number
- Item or charge description
- Item or charge abbreviation
- Item charge dollar amount
- Links to general ledger

Individual departments within SCVHHS may generate charges through an electronic charge or order communication system, or manually via paper patient encounter forms. All billing information for a patient admission or encounter is derived from the CDM. The charges, charge descriptions, and all codes attached to a line item in the CDM file flow through electronic systems to Patient Business Services (PBS), where corresponding claims are generated. The claims may be edited before submission to the appropriate payors.

The CDM must be reviewed and updated on a regular basis to reflect changes in charges for services, supplies, devices, medications, facility utilization, and room occupancy, as well as changes in procedures, programs, technology, billing regulations, and reimbursement rates. Adverse impacts of an inaccurate CDM may include:

- Overpayment requiring refunds
- Underpayment
- Undercharging for items
- Claim rejections
- Fines
- Penalties
- Loss of revenues

POLICY:

It shall be the policy of SCVHHS to maintain and update the CDM and patient encounter forms on a regular basis as required. The SCVHHS Office of Financial Planning & Analysis is responsible for the maintenance and updating of the CDM in conjunction with each SCVHHS Department. Each SCVHHS Department is responsible for establishing internal controls to ensure the correct use, maintenance, and revision of its CDM and patient encounter forms.

This policy applies to all SCVHHS entities that rely on a CDM for claim submission and billing, such as Alcohol & Drug Services, Children's Shelter & Custody Health Services, Community Outreach Services, Mental Health, Public Health, and Santa Clara Valley Medical Center (SCVMC). In particular, there shall be on-going coordination of CDM maintenance and revision activities between SCVHHS Office of Financial Planning & Analysis and Division/Cost Center managers at SCVMC.

PROCEDURE:

Responsible Party	Action
Office of Financial Planning & Analysis (FP&A) in conjunction with SCVHHS Departments	On a regular basis, review, verify, and update if appropriate the following: <ul style="list-style-type: none">- CDM key elements- HIPAA TCI elements- OSPDH and other FP&A reporting requirements- Revenue code assignment and mapping to CPT/HCPCS codes when appropriate- No duplication of code assignment- No inadvertent "unbundling"- HCPCS code assignment, and department-specific HCPCS coding- Department/cost center-specific OPPS reimbursement rates- Department/cost center-specific APC reimbursement rates- Department/cost center-specific coding and charging schemes- Reimbursement rate changes from Medi-Cal, Medicare fiscal intermediaries and carriers, and other payors- Appropriate inclusion of modifiers- Accurate "explosion" of one service code into multiple CPT/HCPCS codes- Pass-through item assignment- Unlisted services, procedures, supplies, medications- Non-reportable and non-covered charges- Visit counter data

Office of Financial Planning & Analysis (FP&A) in conjunction with SCVHHS Departments

At regular intervals, review, verify, and update if appropriate the following:

- Billing and reimbursement bulletins, transmittals, and program memoranda from Medi-Cal, Medicare fiscal intermediaries and carriers, and other payers
- Compliance with guidelines of National Correct Coding Initiative and other coding or bundling edits
- Patient encounter forms, charge entry screens, and order entry screens for accuracy against the CDM, as well as accurate mapping to CPT/HCPCS codes when required
- Policies and procedures for Department directors and cost center managers to submit CDM change requests for new, deleted, or revised items, procedures, and services
- Department/cost center-specific policies and procedures for charging and billing of procedures, services, supplies, devices, medications, facility fees, and room charges
- Policies and procedures for billing of Observation services, inpatient Rehabilitation services, Outpatient Therapy services, Outpatient renal care services and other specialty services (*i.e.*, CPSP, CHDP).

Director of SCVHHS Office of Financial Planning & Analysis

- Coordinate CDM maintenance and review with SCVHHS Departments
- Ensure complete and accurate documentation of CDM review and maintenance activities
- Establish schedules for regular maintenance and review of the CDM as appropriate
- Engage services of external consultants to assist in CDM maintenance and review if appropriate
- Sign and approve revised CDM

Issued: 06/01/2003
Revised: 02/07/2007

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Section 8. Control of Hospital Assets

Background

- Regular certification of physical inventory of the County's capital or fixed assets (\$5,000 or more at acquisition) is required by State law, County Ordinance, Federal regulations, the California State Accounting Standards for Counties, and the County's fixed asset policy.

Problem

- Compared with some other jurisdictions, the County of Santa Clara lacks strong policies to ensure accountability for fixed assets. For example, those responsible for custody of the assets also take the inventory of those assets; there are no criteria for reporting missing items to lay investigators, law enforcement or the Board of Supervisors; and there is no mechanism to recover the value of missing items from either the responsible department budget or responsible personnel. Further, departments have three and a half months to certify their inventories after the year-end inventory reports are generated, but Santa Clara Valley Medical Center (SCVMC) misses the deadline every year. In Solano County, any department that misses the deadline may be referred to the District Attorney's Office for possible misdemeanor prosecution.

Adverse Effect

- As a result of weak controls and failure to comply with County policy and Ordinances, in the four-year period of FY 2006-07 to FY 2009-10, the County wrote off 1,124 pieces of equipment and furnishings that SCVMC was unable to locate during inventory counts. These items were originally purchased for about \$30.4 million. During this period, all of the County's other departments *combined* wrote off just 69 items that could not be located.

Recommendations

- The County Controller-Treasurer should revise the County fixed asset policy to improve controls over assets, and ensure notification of the Board of Supervisors when assets are unaccounted for, and, in certain instances, provide for review by other authorities. These improvements would ensure that taxpayer-funded assets are used and disposed of properly, and could reduce equipment expenses. A reduction in average capital asset losses of just five percent would generate more than \$390,000 in annual savings.

Inventory Certification Is Required

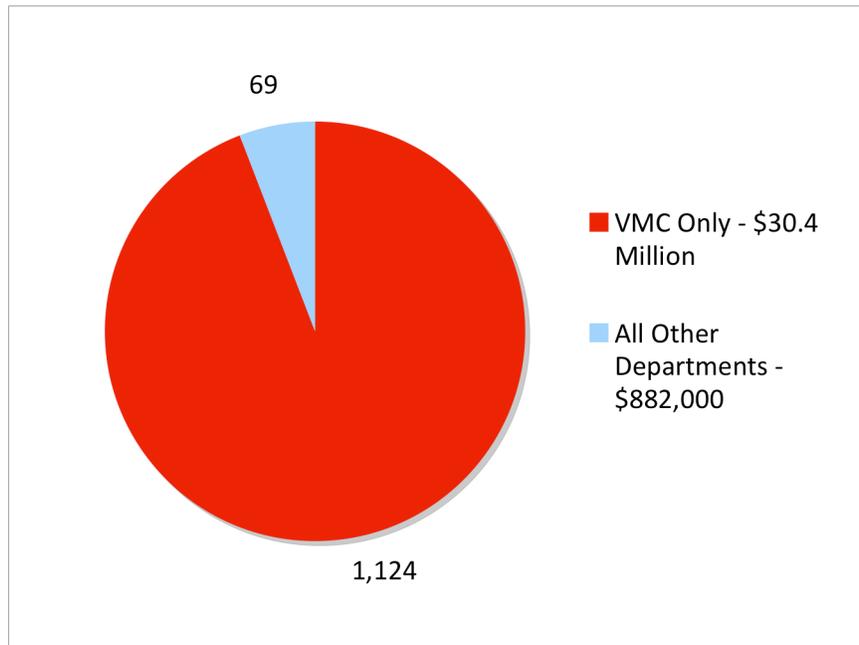
Regular certification of physical inventory of the County's capital or fixed assets (\$5,000 or more at acquisition) is required by State law, County Ordinance, Federal regulations, the California State Accounting Standards for Counties, and the County's fixed asset policy.

Section A15-14 of the County Ordinance Code (Attachment 8.1), in accordance with Government Code Section 24051 (Attachment 8.2), requires managers responsible for County property to file an annual inventory of fixed assets "under oath." The County Controller-Treasurer Department provides forms to cost center managers identifying assets in inventory as recorded in the County's financial system, and managers are asked to certify the accuracy of the inventory records and account for any discrepancies. In addition, the Federal Office of Management and Budget (Circular A-87) requires inventory of fixed assets at least once every two years. In addition, Section 15.27 of the State Accounting Standards and Procedures for Counties requires physical inventories be conducted in accordance with legal requirements. The County fixed asset policy, which governs the taking of physical inventory, is provided as Attachment 8.3.

Write Offs Over the Last Four Fiscal Years

When assets cannot be located in inventory, they are "written off," or removed from the list of inventory, the County's financial system, and the County's financial statements. Chart 8.1 that follows shows the count of fixed assets that could not be located and were written off for the most recent four fiscal years for the Santa Clara Valley Medical Center (SCVMC) and all the other County departments combined.

Chart 8.1
Of the 1,193 Missing Items Written Off
From FY 2006-07 through FY 2009-10,
94 Percent Was at SCVMC



Source: County Controller-Treasurer Department, Physical Inventory Certification Records

As shown in Chart 8.1, the hospital is the primary source of unaccounted for items in the County. Of the 1,193 pieces of equipment and furniture that were taken off the books following inventory in FY 2006-07, FY 2007-08, FY 2008-09 and FY 2009-10, all but 69 were assigned to SCVMC.¹ According to the County Controller-Treasurer's records, the hospital's items were purchased for about \$30.4 million; the other 69 items were purchased for about \$882,000, for a total of \$31.3 million. The majority (49) of these 69 non-VMC items was in other Santa Clara Valley Health and Hospital System (SCVHHS) departments². Those items were purchased for about \$611,000. Over the four-year period, all County departments except for SCVHHS departments wrote off a combined total of 24 items, which were purchased for about \$271,000. That is, SCVHHS departments were responsible for 98 percent of the items written off over the past four years, and these items represented more than 99 percent of the acquisition value of written off items Countywide over that period. To put the four-year SCVMC write offs in perspective, the unaccounted for items equate to more than half of 2,092 items in the hospital's assets in inventory as of June 30, 2010. Most of the unaccounted for SCVMC items were medical in nature, such as autoclaves, microscopes, anesthesia machines, ventilators, hospital beds, operating tables, patient monitors and scopes, lasers, and camera systems. Some items were more general, such as computers, furniture and vehicles. Additionally, in a survey of other hospitals for this audit, Riverside County Regional Medical Center and San Mateo Medical Center each reported having less than \$250,000 in write offs for FY 2009-10. No other hospitals responded to the question.

The FY 2009-10 write off request from SCVMC includes items that were added to the inventory shortly before the inventory count. For example, a \$6,833 platelet incubator owned by SCVMC was added to County inventory records on May 31, 2010, but was unaccounted for in the June 30, 2010 inventory records submitted to the Controller in early January, 2011. The County's financial system, SAP, shows that among the hospital's \$14,516,291 in expenditures in the fixed asset and debt service cost center (6849), through early March of FY 2010-11, was the purchase of a new platelet incubator on November 5, 2010 for \$8,437.93. The latter purchase may not have been related to the loss of the first platelet incubator. However, the fact that between FY 2006-07 and FY 2009-10, SCVMC was unable to account for inventory that was purchased for \$30.4 million means that some a portion of the of the \$38.7 million that the Board of Supervisors appropriated in the FY 2010-11 budget in cost center 6849 is going toward replacement of missing capital assets.

¹ The FY 2009-10 amounts are based on department requests for write-offs submitted to the County Controller-Treasurer. The actual write-offs for that year were pending at the time this report was prepared.

² These departments consist of Budget Units 410, 412, 414, 417, and 418.

Why Items Cannot Be Located

When an item purchased for \$5,000 or more is not found in the annual inventory, there are various possible explanations for its whereabouts. An asset that cannot be located may have been:

- Transferred to another cost center without the transfer having been recorded in the financial system;
- Stored in an unknown location (misplaced);
- Disposed of or donated due to malfunction, obsolescence or damage without the disposal having been recorded in the financial system;
- Exchanged by a vendor that replaced it with new equipment, without the replacement having been recorded in the financial system;
- Stolen; or,
- Overlooked during a count.

Disposal

According to the SCVMC Controller's Office, the main reason for the inability to locate the unaccounted for items was due to their having been disposed of by personnel who failed to submit the paperwork and the items to the County Procurement Department's disposal unit. This failure is contrary to County Ordinance Code Sections A34-88, A34-89 and A34-90 (Attachment 8.4), as well as the County's fixed asset policy (Attachment 8.3) and the hospital's Disposition of Obsolete/Outdated Supplies policy (#942.0), as shown in Attachment 8.5. Per the procedures, the responsible department is supposed to submit the items along with proper disposal forms a to Procurement, which is the only department that is authorized to dispose of County property. After Procurement disposes of items, the disposal forms are then submitted to the Controller-Treasurer Department, which ensures they are removed from inventory.

Even if the items were simply disposed of improperly, rather than lost or misappropriated, it raises concerns. First, without proper disposal records, it is impossible to know what became of the items. Second, many items in the custody of the hospital may need special handling for proper disposal. For example, computers may contain patient information, or there may be equipment that contains contaminants such as lead, mercury, or biological substances. Further, some items may have remaining monetary or functional value, which could be recouped by selling the items or donating them to schools, charities or non-profit health organizations.

Management Audit staff reasoned that if there had been a significant improvement in the proper disposal of SCVMC assets through County Procurement, there should have been an increase in disposal forms coming to the Controller-Treasurer Department. Appropriate Controller-Treasurer staff and Procurement staff indicated that they had noticed no increase in disposal forms. Management Audit staff reviewed disposal forms received by the Controller-Treasurer Department during the first 4 ½ months of FY 2010-11, as well as for the prior two years. No improvement in disposal practices was apparent: other than buildings, SCVMC properly retired approximately 10 items in those 4 ½ months, or about half of one percent of its June 30, 2010 inventory. Because more than 35 percent of that inventory had a book value of \$0, it is reasonable to assume that additional items may have been disposed of without being properly handled and accounted for. Indeed, according to SCVMC senior management, the hospital has not made changes in its policies or procedures to improve disposal or other practices to improve control over assets. The relatively low volume of recent asset disposals for SCVMC suggests that the FY 2010-11 and possibly future inventories are likely to show unaccounted for assets.

Technology Solutions

The SCVMC Controller's Office and the County Controller-Treasurer Department have indicated that the hospital will install at some point in the future an electronic inventory monitoring system that will be able to locate assets recorded in the system round the clock and in real time. While such a system would improve controls, hospital management and the County Controller-Treasurer Department should ensure that assets are safeguarded prior to the installation of the system, and in other County departments, by improving the fixed asset policy as recommended in this audit and described below.

When Items Cannot Be Located

Per the County of Santa Clara fixed asset policy, as revised in 2006 and provided as Attachment 8.3, when an item cannot be found during a physical inventory, the manager responsible for the item is expected to try to determine its location. If it cannot be located after further examination, the manager indicates as such on a form. The forms are provided to the Controller-Treasurer Department, which prepares a memo that is signed by the County Executive authorizing write-off of the value of the items from the financial statements and removal of the items from inventory. Once the items are written off, no further review is carried out. There are several deficiencies in the current policy.

Deficiencies in Current Fixed Asset Policy

Custody and Inventory Duties are Not Segregated

First, the same persons responsible for custody of fixed asset items, or their subordinates, may also carry out the physical inventory and certify the records. This means that if a responsible party either wished to avoid carrying out the inventory work or investigation of missing items, or wished to avoid disclosure of missing items, items could be certified as present when they are not.

There are two pieces of evidence that suggest certifications of non-existent inventory may be occurring at SCVMC. First, a 2009 audit by the County of Santa Clara Internal Auditor found that \$1.3 million worth of equipment had been certified as in inventory when in fact auditors could not find it. A copy of the relevant section of the audit report is provided as Attachment 8.6. Second, as shown in Attachment 8.7, a nurse at SCVMC wrote a letter in 2008 complaining to senior hospital management that she had been asked by management on multiple occasions to certify inventory records that were inaccurate.

Both the State accounting standards and the Government Finance Officer's Association recommend periodic evaluation of inventory records by independent or external parties. In such a system, the County Controller-Treasurer or some other third party might periodically conduct random "re-checks" of sample inventory records to ensure they are accurate. However, the thin staffing level in the County Controller-Treasurer Department precludes such a program, and the County's current and ongoing budget shortfalls preclude hiring additional staff or hiring an outside contractor to review inventory. Given these constraints, the Controller-Treasurer should amend the County fixed asset policy to require that in departments with sufficient staff to segregate duties, physical inventories must only be taken by personnel without responsibility for that inventory. That is, the fixed asset inventory should not be taken by persons with custody of items to be inventoried or their direct subordinates without external verification. The County Controller-Treasurer Department has indicated that segregation of inventory duties might not be feasible in small departments with limited staff. In such departments, the potential inventory losses are also less of a concern. In the case of SCVHHS, however, those departments employ several thousand staff. It should be possible to select staff in those departments without direct responsibility for inventory to conduct the inventory count for other SCVHHS departments or units.

Lack of Investigatory Provisions When Items Cannot Be Located

Next, the County's fixed asset policy provides for a single response to missing assets: they are written off. It provides no provisions for referring any instances of missing assets to either internal reviewers, such as the Risk and Insurance Division of the County's Employee Services Agency, or to law enforcement, such as the District Attorney or the police. The Controller-Treasurer should amend the fixed asset policy to

specify under what circumstances missing assets may trigger a review by either the Employee Services Agency or a referral to law enforcement. For instance, such referrals could be triggered for a cost center or department by the disappearance of a specified number of items, or of items cumulatively valued at more than a certain dollar amount, or of the same type of item from the same cost center. Some jurisdictions have policies that provide for investigations when items cannot be located. For example, Orange County has provisions to refer discrepancies to the Board of Supervisors, internal reviewers, and, as needed, to the District Attorney, as shown in Attachment 8.8. Additionally, in Orange County, as shown in the policy excerpt provided as Attachment 8.9, all missing items are reported to Risk Management. A second example policy, from the University of North Carolina, is provided as Attachment 8.10. Even if no referrals were ever made, the potential for such review would serve to encourage use of proper procedures for accounting for assets and disposing of them. Requiring staff to sign inventory records “under oath” is not a sufficient control for two reasons. First, there is no identified mechanism or process for enforcement.³ In addition, the loss of almost 1,200 items purchased for more than \$31 million in the span of four years occurred despite this control.

Lack of Enforcement of the Inventory Certification Deadline

The County Controller-Treasurer has established a November 30 deadline for the annual June 30 inventory to be certified and reported to the Controller-Treasurer. This provides three and a half months for each department to account for assets following the close of the fiscal year and issuance of inventory lists in mid-August. According to Controller-Treasurer staff, SCVMC misses this deadline every year. SCVMC furnished the results of its inventory to the Controller-Treasurer for FY 2009-10 in early January, 2011. There is no provision in the County fixed asset policy to enforce the deadline. In contrast, the Solano County Auditor-Controller, per County policy, may refer a department to the District Attorney for possible misdemeanor prosecution for failure to meet its September 30 deadline for submitting inventory records to the Auditor-Controller. That section of the Solano County policy is provided as Attachment 8.11. The County of Santa Clara Controller-Treasurer should amend the fixed asset policy to include provisions for enforcement of the deadline to ensure that any missing items are identified and reported within the prescribed timeframe. For instance, the policy could require that the head of a department that fails to meet the deadline provide an in-person report to the Board of Supervisors detailing the reasons for the failure. Reporting missing assets promptly is important, since it improves the opportunity to determine what happened to the assets and/or potentially locate the assets.

³ According to the Controller-Treasurer Department, the County will pursue prosecution in the rare event that theft is reported. Such action is not equivalent to investigating the reasons for numerous missing items to determine how and why they are missing, and whether theft, misuse or significant policy breaches may have occurred.

Failure to Notify the Board of Supervisors When Assets Are Not Found

In the County of Santa Clara, there is no provision to alert the Board of Supervisors when assets are unaccounted for, regardless of the volume of missing assets, or the value of those assets. Some other jurisdictions routinely provide information about asset losses to the Board of Supervisors. In Solano County, any department head that cannot locate any item is required to personally appear before the Board to request personal release of responsibility for that item, per County policy, as shown in Attachment 8.12. Additionally, as shown in Attachment 8.13, Solano County provides a report to the Board on unaccounted for items as part of its Mid Year Report. In Orange County, the Board receives a report of lost, stolen and damaged equipment three times a year, and is responsible for authorizing the write-offs of that equipment, as shown in the policy excerpt provided as Attachment 8.14. The County Controller-Treasurer should amend the County fixed asset policy to provide for prompt notification to the Board's Finance and Government Operations Committee when assets cannot be located.

Inability to Recoup the Fair Market Value of Missing Assets

In some jurisdictions, individual managers can be made to personally reimburse the agency for the fair market value of missing assets. For example, as shown in Attachment 8.15, Solano County policy enables the Board to hold department heads accountable for assets "on a case by case basis." At present, when assets are missing in the County of Santa Clara, there is no provision to hold the departments or the management responsible for the financial loss. The County's fixed asset policy should be revamped to note that, depending on the circumstances the Board of Supervisors may choose to fund other critical services in the hospital or in other departments and may delay funds for replacement of missing equipment or furnishings, or replace missing furnishings with less expensive brands.

Continued appropriations of funds for replacement of large amounts of missing assets reduces the ability of the County to provide critical public services both within the responsible departments and in other departments. Toward that end, in reports to the Board of Supervisor's Finance and Government Operations Committee that describe unaccounted for assets as recommended in this audit, assets that departments intend to replace should be specifically identified for the purpose of enabling the Committee to assess whether appropriations for such expenditures are warranted, in light of the reductions that likely will occur in other budget areas in order to pay for those replacements.

CONCLUSION

Compared with some other jurisdictions, the County of Santa Clara lacks strong policies to ensure accountability for high-dollar or highly portable equipment and furnishings. As a result of weak controls and failure to comply with County policy and Ordinances, in the four-year period of FY 2006-07 to FY 2009-10, the County wrote off

1,193⁴ pieces of equipment and furnishings, 98 percent of which was in the custody of SCVMC. These items were originally purchased for about \$31.3 million. During this period, all of the County's other departments combined wrote off just 69 items that could not be located, with the majority of these being in Health and Hospital departments. Additionally, inventory certifications are consistently submitted after the deadline. Notably, these problems have continued despite the fact that some have been identified in a prior audit, and despite the fact that there are already County policies and ordinances prohibiting or requiring procedures that would improve asset control. Therefore, asset control will not be attained through further audits, or adoption of different rules, but rather through enactment of strong new provisions to enforce existing polices and laws.

RECOMMENDATIONS

The Controller-Treasurer Department should amend the County fixed asset policy to:

- 8.1 Within large departments and agencies, restrict who may carry out physical inventories to persons who are not responsible for the assets. (Priority 1)
- 8.2 Specify under what circumstances missing assets may trigger review by either the Employee Services Agency or a referral to law enforcement or other appropriate entities. (Priority 1)
- 8.3 Include provisions for enforcement of the inventory certification deadline to ensure that any missing items are identified and reported within the prescribed timeframe. (Priority 2)
- 8.4 Provide for prompt reporting to the Board's Finance and Government Operations Committee when assets cannot be located. In these reports, responsible departments should specify whether they intend to replace these items and provide an approximate description and cost of the replacements, so that Board members may determine whether the expenditures on those replacements are warranted in light of each item's replacement history, the potential de-funding of other priorities in order to fund those replacements, and the likely operational effect, if any, of non-replacement or replacement with less expensive brands. (Priority 1)

SAVINGS, BENEFITS AND COSTS

By implementing Recommendation 8.1, the Controller-Treasurer Department would ensure the accuracy of annual inventories, and ensure that staff responsible for reporting the existence of assets are not the ones responsible for safeguarding those assets. This recommendation is required in order to make the subsequent recommendations effective. If this recommendation is not implemented, departments

⁴ The write-off of FY 2009-10 assets was still pending at the time of this report was drafted.

may simply cease to report their asset losses if stronger controls as described in the subsequent recommendations are implemented.

Implementation of the remaining recommendations would not result in material costs and would have numerous benefits. Implementation of Recommendation 8.2 could serve to strongly encourage staff to complete proper forms for asset retirement and transfer, and provide a mechanism for addressing substantive losses, as have occurred recently. Implementation of Recommendation 8.3 should improve timely completion of certification of inventory. Long delays in certification of inventory records reduce accountability for assets, and could hamper investigative or disciplinary efforts should they be necessary. Implementation of Recommendation 8.4 should improve compliance with existing policies and the County's existing ordinance code sections regarding safeguarding of fixed assets and may reduce the expense associated with asset losses. Over the last four years, the County has written off on average \$7.8 million per year in missing high-dollar assets. For each 5 percent reduction in these write-offs, the County would save more than \$390,000 annually.

Sec. A15-14. - Inventory of County property.

(a)

Each County officer or person in charge of any office, department, service or institution of the County, each officer of a judicial district, each judge, or the clerk, secretary or other administrative officer of each court of record, and the executive head of each special district whose affairs and funds are under the supervision and control of the Board of Supervisors or for which the Board is ex officio the governing body shall file with the Director of Finance not less often than annually, and at times fixed by the Director of Finance, an inventory under oath, showing in detail all County property in his or her possession or in his or her charge. The Director of Finance shall prescribe the manner and form in which the inventory shall be compiled. The inventories shall be kept on record by the Director of Finance for at least five years and thereafter may be destroyed by such officer.

(b)

Upon vacating a County office, each such County officer shall prepare a certified statement of assets to be transferred to his or her successor in office. Such certification will include but not be limited to cash on hand (including cash receipts, bank accounts and revolving funds), trust-accounts, accounts receivable, fixed assets, unused receipts and unused warrants. The certification will be in a form prescribed by the Chief Internal Auditor and will be subject to audit. The Chief Internal Auditor shall, at a minimum, audit the cash on hand as certified by the vacating officer.

(Ord. No. NS-300.393, § 9, 3-26-85)

Sec. A15-15. - Methods and procedures.

The Director of Finance shall prescribe, subject to the approval of the County Executive, the methods of keeping and rendering accounts of all offices, institutions, departments, agencies and districts; and he or she shall have full access to all offices, institutions, departments, agencies and districts for the purpose of examining or revising procedures and forms pertaining to the recording of all transactions of such offices, institutions, departments, agencies and districts.

(Ord. No. NS-300.393, § 9, 3-26-85)

Sec. A15-16. - Transfer of equipment, supplies between departments; furnishing of services by one department to another.

Whenever any office, department or institution requires equipment, materials, supplies or services which another office, department or institution is able to furnish, a suitable request shall be prepared in the manner prescribed by the Director of Finance. Where the request is for the transfer of materials, equipment or supplies purchased from capital outlay funds, or is for services involving an expenditure of capital outlay funds, it shall be submitted to the County Executive for approval. If the County Executive disapproves such a request, he or she shall give his or her reasons in writing to the office, department, agency or institution making the request. After such suitable request has been prepared and transmitted in the manner prescribed by the Director of Finance, and, when necessary, approved by the County Executive, the materials, equipment, supplies or services may be transferred or furnished. In such cases, appropriate charges and credits to the respective accounts of the offices, departments, agencies and institutions affected by such transfer shall be made by the Director of Finance.

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 24050-24058

24050. Each county officer shall complete the business of his office to the time of the expiration of his term. If at the close of his term any officer leaves to his successor any official labor to be performed which it was his duty to perform, he shall be liable to his successor for the full value of such services.

24051. (a) On or before July 10th in each year, or at any other interval designated by the board of supervisors, each county officer or person in charge of any office, department, service, or institution of the county, and the executive head of each special district whose affairs and funds are under the supervision and control of the board of supervisors or for which the board is ex officio the governing body shall file with the county clerk, or with the county auditor, according to the procedure prescribed by the board, an inventory under oath, showing in detail all county property in his or her possession or in his or her charge at the close of business on the preceding June 30th.

(b) By ordinance the board of supervisors may prescribe an annual or any other period, provided that the period shall not be in excess of three years, for preparation of the inventory and a correspondingly different date for its filing, and may prescribe the manner and form in which the inventory shall be compiled. The inventories shall be kept of record by the county clerk or auditor for at least five years. Any inventory which has been on file for five years or more may be destroyed on order of the board of supervisors or may be destroyed at any time after the document has been reproduced in accordance with Section 26205.1.

(c) A true copy of the inventory shall be delivered by the person who made it to his or her successor in office, who shall receipt for it. The receipt shall be filed with the county clerk or county auditor.

24052. Whenever notice is required by law to be published in a newspaper by any officer of a county or judicial district, the person for whom the notice is to be given shall pay to the officer, if required, the fees for the publication, in advance. Failure of any officer to publish any notice required by law pertaining to the duties of his office is a misdemeanor.

24054. Any officer authorizing, aiding to authorize, auditing, allowing, or paying any claim or demand upon or against the treasury of any county, or any fund thereof, in violation of law or of the constitution is liable personally and upon his official bond to the person damaged by such illegal action, to the extent of his loss by reason of the nonpayment of his claim.



COUNTY OF SANTA CLARA

OFFICE OF THE CONTROLLER-TREASURER

FIXED ASSETS POLICIES AND PROCEDURES

March 2006

| Sec. A34-88. - Report of personal property no longer needed.

Whenever any items of personal property are no longer needed by the agency, office or department having possession thereof, such fact shall be reported to the Director of Procurement where required by, and in accordance with, procedures which may be established by the Director of the General Services Agency.

(Ord. No. 300.644, § 2, 1-9-01; Ord. No. NS-300.652, § 10, 6-26-01)

| Sec. A34-89. - Acquisition of salvage from Director of Procurement.

Whenever an agent, office or department has need for property which has been placed in the Director of Procurement's stock for salvage materials and equipment, such agency, office or department may acquire the property by submitting a transfer request to the Director of Procurement, approved by the director of the agency, office, or department. Upon receipt of an approved request for transfer, the Director of Procurement shall make the transfer.

(Ord. No. 300.644, § 2, 1-9-01; Ord. No. NS-300.652, § 11, 6-26-01)

| Sec. A34-90. - Disposal of personal property no longer needed.

- (a) Whenever the Director of Procurement determines that any items of personal property belonging to the County are no longer required for public use, such items shall be sold or otherwise disposed of in accordance with Government Code §§ 25504—25506.
- (b) For surplus personal property having a single or aggregate value of not more than \$500.00, the Director of Procurement shall be authorized to donate such property to any public agency within the County or to any private nonprofit organization performing public-benefit work within the County.

(Ord. No. 300.644, § 2, 1-9-01; Ord. No. NS-300.652, § 12, 6-26-01)



Central Services
Policies
and
Procedures

6/1/2009

TO: SCVHHS Executive Management Group

FROM: SCVHHS Chief Executive Officer

SUBJECT: Disposition of Obsolete/Outdated Supplies

REFERENCE: County of Santa Clara Ordinance Code Section A34-88 and A34-90
HHS #711.0 Capital Equipment, Transfer and Disposition of

BACKGROUND:

The purpose of this policy is to provide increased control over the disposition of obsolete supplies and to comply with County Ordinance Code Section A34-88, A34-90.

Specifically, when any item is no longer needed by an office, department, or institution having possession thereof, such fact shall be reported to the Purchasing Agent. In the event that the Purchasing Agent determines that any items of personal property belonging to the County are no longer required for public use, such items shall be sold or otherwise disposed of in accordance with Section 25504 to 25506 inclusive of the government code. Supplies that are included in Santa Clara Valley Health and Hospital System (SCVHHS) inventory are considered as personal property under the meaning of the County Ordinance Code referenced above.

POLICY:

Cost Center Managers are responsible for authorizing the disposition of all obsolete items and maintain a record of disposition.

PROCEDURE:

Responsible Party	Action
Cost Center Manager and General Fund Department Managers	Completes "Fixed Asset Retirement Form" listing items being discarded including reason for discard, estimated value, if any, and signs. Forwards copy of the log to HHS Materials Manager.

Resource Management -
Property Control Personnel

Removes obsolete supplies and stores in Property Control warehouse.

Reviews obsolete supplies with County Procurement Disposal Agent on a regular basis.

Transfers supplies that have resale value to the Property Disposal Agent for processing.

Attachment : Fixed Asset Retirement Form

Issued: 02/03/1984
Revised: 06/01/2009
Number Changed 08/25/2005

Findings and Recommendations

Finding 1

Equipment costing \$1.3 million was not properly accounted for.

A VMC department identified equipment costing approximately \$1.3 million as located during the annual physical inventory even though it is no longer on the premises. The department asserts that the equipment was used for trade-in in 1999 but was unable to locate the transfer and disposition form; thus, the equipment remains on the fixed asset list. The annual physical inventory should be conducted in a manner that accurately accounts for all fixed assets. The department filled out the transfer and disposition form in 2006, at the request of SCVHHS Finance, as the original document was missing. The equipment was identified as located because the department confirmed the existence of the fixed asset without verifying the asset tag number or serial number. Confirming the existence of fixed assets that are no longer there overstates the County's asset balances in the general ledger.

Recommendation 1.1 SCVHHS Finance should initiate the removal of the \$1.3 million equipment from the general ledger by submitting a write off request to the Finance Agency Director by April 2009. [Priority 1]

Recommendation 1.2 Beginning with FY 2009 physical inventory, SCVHHS Finance should remind departments, as part of its annual physical inventory instructions, to verify the asset tag or serial number prior to confirming the existence of the fixed asset. [Priority 2]

[REDACTED]

From: [REDACTED]
Sent: Friday, October 10, 2008 4:03 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: FW: RE: 2008 Fixed Asset Inventory Report

Another correction – see red below (x2)

From: [REDACTED]
Sent: Friday, October 10, 2008 3:33 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: RE: 2008 Fixed Asset Inventory Report

I will fax and send a hard copy of the fixed asset list. I am extremely concerned that items continue to be listed that should have been removed years ago. There are also items listed that were purchased in bulk during past years fixed assets. For example, I purchased a central station, receiver housings and modules. For a bulk purchase, someone has given all of the items one asset number which is not reflected on any of the equipment. Most equipment does not, in itself, cost > \$5000 and thus would not require an asset tag. In addition, Biomed has no recording of such asset numbers.

Next year, there will be a new [REDACTED] manager for [REDACTED] and it is imperative that this is fixed. I have made multiple attempts to help the finance dept correct this. Over the years, I have met in person with [REDACTED], [REDACTED] and [REDACTED]. I take this report very seriously, especially since I am signing after a statement which reads, "I hereby certify under penalty of perjury that the following inventory list for my department is correct". Every year, I am told that I must sign this list even though it is not correct. So once again, I am signing a document that is not accurate.

Physical Inventory of Fixed Assets

SUBJECT: PHYSICAL INVENTORY OF FIXED ASSETS	NUMBER: — FA.5.
DEPARTMENTS & DISTRICTS AFFECTED: ALL AGENCIES, DEPARTMENTS, AND DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS	— EFFECTIVE: 11/78 REVISED: 01/94, 12/99 <p style="text-align: center;">Original signed by David E. Sundstrom</p> <hr/> David E. Sundstrom, Auditor-Controller

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- 3.1 General Ledger Review/Property Officer Response
- 3.2 Referral to Auditor-Controller Cost Studies/Mandated Audits
- 3.3 Referral to Internal Audit Department
- 3.4 Unresolved Deficiencies
- 3.5 Issuance of Acceptance Letter

EXHIBITS

- Exhibit I - Inventory of County Property Form
- Exhibit II - Listing of Exceptions to Fixed Asset Inventory
- Exhibit III - Fixed Asset Inventory Procedures Questionnaire
- Exhibit IV - Fixed Asset Inventory Sixty-Day Follow-Up Letter
- Exhibit V - Reporting Schedule for Physical Inventories and Missing, Stolen, Damaged, Dismantled and Destroyed Fixed Asset Equipment Items

SUBJECT: PHYSICAL INVENTORY OF FIXED ASSETS	NUMBER: — FA.5.
DEPARTMENTS & DISTRICTS AFFECTED: ALL AGENCIES, DEPARTMENTS, AND DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS	— EFFECTIVE: 11/78 REVISED: 01/94, 12/99 <p style="text-align: center;">Original signed by David E. Sundstrom</p>

inventory procedures, Inventory of County Property Form, listing of exceptions, and Sixty-Day Follow-Up Letter will be reviewed by the Auditor-Controller General Ledger Unit for compliance with this procedure. If this review reveals apparent deficiencies, the General Ledger Manager will attempt to resolve the problems with the departmental or agency Property Officer.

3.2 Referral to Auditor-Controller Cost Studies/Mandated Audits

If inventory procedure problems cannot be resolved by the Auditor-Controller General Ledger Manager and the departmental/agency Property Officer, the General Ledger Manager shall communicate his/her concerns to the Auditor-Controller Cost Studies/Mandated Audits Manager. The General Ledger Manager shall send the following:

- Written descriptions of any apparent deficiencies in the inventory procedure
- The Fixed Asset Inventory Procedures Questionnaire for the affected department/agency
- Departmental/agency procedures for conducting the inventory
- Inventory of County Property Form, listing of exceptions, and Sixty Day Follow-Up Letter

The Cost Studies/Mandated Audits Manager shall attempt to resolve the inventory problems with the affected department/agency.

3.3 Referral to Internal Audit Department

If the Auditor-Controller Cost Studies/Mandated Audits Manager cannot resolve the inventory problems with the department/agency, the Auditor-Controller will refer the inventory to the Internal Audit Department, requesting further review. The Internal Audit Department will then perform whatever procedures it deems necessary to audit the inventory. Internal Audit will provide recommendations of corrective action in a written audit report in accordance with Administrative Procedure No. 1 of the Audit Oversight Committee, which includes distribution to the Auditor-Controller, CEO, Board of Supervisors, Clerk of the Board, and situationally includes distribution to the District Attorney.

3.4 Unresolved Deficiencies

If inventory deficiencies cannot be corrected based on review by the Internal Audit Department, the issues will be presented by the Internal Audit Department to the Audit Oversight Committee for resolution in accordance with Audit Oversight Committee Administrative Procedure No. 1.

3.5 Issuance of Acceptance Letter

Once corrective action is taken as determined by the Auditor-Controller Cost Studies/Mandated Audits Manager, or by the Internal Audit Department if requested by the Auditor-Controller, the Auditor-Controller will send the letter of acceptance of the inventory to the department/agency director. See Step 21 of Section 2.3, above.

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2.13 Missing Equipment

When a department or agency determines that a fixed asset equipment item is irretrievably lost, not stolen or destroyed, a letter must be submitted to the Auditor-Controller stating the fixed asset description and number, and an explanation for the missing item. The letter should request deletion of the missing item from the fixed asset inventory and relief of accountability for the item. The letter must be signed by the department or agency head or, in his/her absence, by the chief deputy or an assistant director, and must include a report of any changes to policies and procedures to prevent a reoccurrence. A copy of the letter should be sent to CEO/Risk Management by the agency. The Auditor-Controller includes the fixed asset item in the next fixed asset write-off package submitted to the Board.



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Title: Conduct Annual Fixed Assets Inventory

The State Auditor's Office requires UNC General Administration to complete an annual inventory of all fixed assets. To efficiently and effectively complete the inventory, The UNC-GA and UNC_TV Fixed Asset Officers each coordinate and implement the fixed asset physical inventory for their respective entities, divisions or programs. Departments are required to complete and submit the inventory worksheets to their respective Fixed Asset Officer each year by March 31st. To assist departments with the execution of this annual audit requirement, we have provided the following instructions:

1. Division heads and program managers assign one individual from their division or area to coordinate the inventory for their organization.

Each inventory coordinator should:

- Separate the inventory worksheets and distribute them to section chiefs for inventory of their sections.
- Confirm that the inventory worksheets are properly completed and signed by the individual conducting the inventory. Sign each worksheet and return them to their respective Fixed Asset Officer: Jeff Hart (919-843-5163) - UNC-GA's Fixed Asset Officer or Michael Mills (919-549-7000) - UNC-TV's Fixed Asset Officer.
- The Fixed Asset Officer will conduct individual inventories of the Spangler Center, and the President's Residence.

Please note: The assigned coordinator should immediately contact their respective Fixed Asset Officer, if there are questions regarding the inventory process.

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Section chiefs will be responsible for:

- Assigning an employee(s) to perform the inventory of their section.
- Providing the detailed instructions to their team(s) and ensuring the inventory is properly conducted.

2. The Fixed Asset Officer will submit each area's inventory worksheets to their respective inventory coordinator. If the inventory coordinator should find worksheets that do not belong to their area, the worksheets should be promptly returned to their respective Fixed Asset Officer for redistribution.
3. The Fixed Asset Officer or inventory coordinator will complete each inventory worksheet as follows:

a. Verify each item and its location by placing a check mark beside the corresponding asset number on the worksheet. Visibly verify that the numbers (asset number, serial number, model number) on the equipment agree with the numbers on the worksheet.

NOTELeased equipment is not property of the University.** Therefore, any leased equipment (computers, etc.) will not appear on any of the worksheets. Please do not add any of this equipment to your worksheets since it does not belong to UNC.

b. Add any items found in a section's area that are not listed on the bottom of the inventory worksheet corresponding to its present location. If applicable, be sure to provide all required data, such as asset number, description, condition and serial number (i.e. #015577, Compaq Computer, New, S/N 58974CFGHT-345).

Note: The only assets that should be listed on the inventory worksheets are information technology assets valued at \$750/item, or other University assets valued at \$5,000 or more.

c. Make a concerted effort to locate all equipment assigned to your area. For assets listed on the inventory but not located in the room being inventoried, the following options (below) are available. Keep in mind, if you are unable to locate an item, the office representative (occupant) should know the assets correct location.

- If the correct location is known, write the current room/cubicle location in the field labeled "comments".
- If the correct location is not known, please provide a written explanation at the bottom of the inventory listing. This explanation should include the date the asset was last in custody and the circumstances regarding its removal.
- If the item is "missing" (alleged stolen), provide the date a security report was filed at the bottom of the appropriate worksheet.

Note: Missing equipment is subject to investigation by the UNC-GA Fixed Asset Officer and local police authorities, and you must file a security report for any items determined to be missing.

- d. Make notations in the "comments field" regarding the location of any assets housed in an employee's home



SOLANO COUNTY AUDITOR-CONTROLLER

POLICIES AND PROCEDURES

- Monthly Detail
- Fixed Asset Additions
- Fixed Asset Transfers
- Fixed Asset Deletions

- B. The transactions on the Monthly Detail report for the fixed asset subobjects shall be reconciled to the Fixed Asset Additions Report.
- C. The department shall reconcile any Equipment Movement Reports to the Fixed Asset Transfers and Deletions reports.
- D. Any discrepancies should be reported immediately to the ACO FACT.

17. Annual Inventory

Government Code section 24051 requires that every County department head file an annual certified inventory of fixed assets with the County Auditor-Controller. The final date for submitting this report to the Auditor-Controller is September 30.

- A. Each year by July 31, the Auditor-Controller provides each department an official inventory listing of fixed assets as of June 30. This list is provided so each department can ensure their fixed asset records are in agreement with the official fixed asset records maintained by the Auditor-Controller.
- B. The department FACP coordinates/conducts an annual inventory of fixed and controlled assets as of June 30 and submits a signed copy of the validated inventory to the Auditor-Controller's Office no later than September 30.

C. All departments not in compliance with the September 30th deadline will be reported to the County Administrator and the District Attorney for possible legal action. Willful non-compliance of Government Code section 24051 is considered a misdemeanor.

D See Section III titled Fixed Asset Inventory for procedures on conducting a physical inventory.

18. Surplus, Transfers, Loans, Donations, Trade-In of Equipment

A. Surplus and Transfers

- 1) County departments that have no use for equipment in their possession should declare it surplus. This may allow another department to make use of the equipment, thereby, resulting in a greater utilization of the County's investment.



SOLANO COUNTY AUDITOR-CONTROLLER
POLICIES AND PROCEDURES

- B. The damaged asset along with a completed EMR must be transferred to the Central Services Division within 48 hours of the incident. A copy of the EMR is also required to be submitted to the Auditor-Controller within 48 hours.
- C. The department must provide the fixed asset description and number, a description of the circumstances of the damage or destruction, and a report of any findings and recommendations to prevent a reoccurrence.
- D. The letter must request removal of the item from the fixed asset inventory and relief of accountability for the item.
- E. The letter must be signed by the department head or his/her chief deputy or assistant.

24. Missing Fixed/Controlled Assets

- A. When a department determines that a fixed asset item is lost, not stolen or destroyed, a letter must be prepared, addressed to the Board of Supervisors, stating the fixed asset description and number, and an explanation for the missing item.
- B. The letter should request deletion of the missing item from the fixed asset inventory and relief of accountability for the item. The letter must be signed by the department head or his/her chief deputy or assistant. In addition, a report must be included of any changes to departmental policies and procedures to prevent a reoccurrence.
- C. The department head shall present this letter to the Board of Supervisors and request approval to discharge the department head from accountability for the missing item.

25. Assets Dismantled for Parts

- A. If a department needs to dismantle equipment for spare parts and as a result, the original equipment item will no longer be operational or identifiable, the FACP prepares an EMR and a letter justifying the need for dismantling the asset. These documents must be prepared at the time that the asset is dismantled.
- B. The letter must be signed by the department head or his/her chief deputy or assistant and must be forwarded to the Auditor-Controller. The completed EMR along with the dismantled assets are forwarded to the Central Services Division into Surplus.
- C. The Workforce Investment Board, the Library and ISD are exempt from this section of the policy. However, they are required to maintain their own internal policies for dismantling assets. These departments continue to be responsible to ensure complete accountability of the original assets. In order to remove assets from the official listing, a completed EMR must be forwarded to the Auditor-Controller.

26. Change of Department Head Inventory



SOLANO COUNTY AUDITOR-CONTROLLER
POLICIES AND PROCEDURES

- A. Prior to the permanent departure or change of department heads, the department shall conduct a physical inventory. See **Fixed Asset Inventory Procedures**.
 - B. The County Administrator has primary responsibility to ensure the physical inventory is conducted prior to the departure of the department head, whether elected or appointed.
 - C. The Auditor-Controller Fixed Asset Control Technician will provide a list of fixed assets and a signed copy of the last inventory.
 - D. The department shall send a copy of the inventory and certification to the Auditor-Controller.
 - E. Upon receipt of the certified inventory, the FACT in the Auditor-Controller's office will review the fixed asset listing and perform a random inventory of items on the listing. Any irregularity and/or discrepancy should be reconciled prior to final payment to the department head.
 - F. New department heads are responsible for fixed assets and should conduct a physical inventory upon assuming office. Any discrepancies should be addressed immediately and reported to the Auditor-Controller.
- 27. Board of Supervisor Authorization**
- A. For any item requiring Board of Supervisor authorization, the department shall immediately notify the Auditor-Controller of the action taken by the Board.
 - B. Upon receipt of Board authorization the Auditor-Controller shall make the approved changes to the department's fixed asset inventory.

28. Auditor-Controller Report to Board of Supervisors

During the presentation of the Mid Year Report, the Auditor-Controller shall present a status report to the Board of Supervisor listing all unaccounted assets as of the preceding June 30.

2.17 Auditor-Controller Report to Board of Supervisors

Three times each year (approximately January, May and September), the Auditor-Controller reports to the Board all missing, stolen, damaged, dismantled and destroyed fixed assets. The report lists all such assets for which all documentation has been completed since the preceding fixed asset write-off report. See reporting schedule in CAP No. FA.2 "Physical Inventory of Fixed Assets." The Auditor-Controller requests authorization to delete these items from the fixed asset inventory and to relieve the department or agency head of accountability. Copies of pertinent documentation are submitted to the Board with the report. When action is taken by the Board authorizing the Auditor-Controller to delete the equipment items from the fixed asset inventory, the Auditor-Controller issues a DOC to delete the equipment and sends a copy to the department or agency that is accountable for the assets.

APPROVED

DEC 04 2007



AGENDA SUBMITTAL TO SOLANO COUNTY BOARD OF SUPERVISORS

BY *Maria Chirila* deputy
CLERK OF THE BOARD

ITEM TITLE Accept the Status Report for Unaccounted Fixed Assets from the Inventory as of June 30, 2007 and reaffirm County Fixed Asset Policies promoting Departmental Accountability		BOARD MEETING DATE December 4, 2007	AGENDA NUMBER 19
Dept:	Auditor-Controller	Supervisorial District Number	
Contact:	Simona Padilla-Schoftens, CPA		
Extension:	6287		
	Published Notice Required?	Yes _____	No <u> X </u>
	Public Hearing Required?	Yes _____	No <u> X </u>

DEPARTMENTAL RECOMMENDATION:

It is recommended that the Board of Supervisors:

- 1) Accept the fixed asset report from the Auditor-Controller listing the unaccounted fixed asset items as of June 30, 2007.
- 2) Reaffirm Board of Supervisors' Policy and State Law, which assigns to department heads the primary responsibility to safeguard, transfer, dispose, control and account for assets under his/her care.
- 3) Require department heads to adhere to the established Fixed Asset Accountability and Control Policies and Procedures.
- 4) Require departments to individually submit requests to the Board of Supervisors for release of accountability and/or, on a case by case basis, hold department heads accountable for specific items.

SUMMARY:

Pursuant to Government Code Section 24051 and in accordance with the County's Fixed Assets Accountability and Control Policy, each County department head, elected or appointed, is responsible for all property purchased for, assigned to, or otherwise provided to his/her department.

Each respective department is responsible for conducting an annual physical inventory of the fixed assets as of June 30 and is required to submit a signed copy of the inventory list to the Auditor-Controller by September 30.

FINANCING:

There is no cost to the County with regard to the acceptance of the status report for unaccounted fixed assets.

DISCUSSION:

Each year the Auditor-Controller provides each department head with a listing of fixed assets as of June 30 for which each department is accountable. This list is provided so each department can ensure their fixed asset records are in agreement with the official fixed asset records maintained by the Auditor-Controller.

In the event the respective department is unable to locate fixed assets or is unable to provide the Auditor-Controller with the required documentation to enable the removal of the fixed assets from the fixed asset listing, **it is the responsibility of the respective department head to seek Board of Supervisors approval for their release of accountability.** The Auditor-Controller does not have the authority to release any department head from accountability for any assets entrusted under his/her custody.

Exhibit A is the list of all unaccounted fixed assets by department as of June 30, 2007. The list provides the historical cost of the items (as required by Generally Accepted Accounting Principles), the book value and the related fair market value. The listing also includes a general explanation as provided by the respective department.

The total historical cost for all unaccounted items for the fiscal year ended June 30, 2007 is \$43,536. Of the total historical cost of \$43,536, \$32,483 is for items more than five years old and \$11,053 is for items less than five years. Four of the 17 items have a fair market value (total - \$4,170) which the Board could use to hold the respective departments accountable.

Exhibit B summarizes the unaccounted fixed assets presented to the Board for the last six years. As presented in the graph, the County departments have **significantly** improved their accountability over fixed assets under their control. The majority of the County departments continue to demonstrate strong accountability of controlled/fixed assets. The Auditor-Controller's Office would like to commend all departments for their ongoing efforts and commitment to ensure accountability of public assets.

ALTERNATIVES:

The Board could choose not to accept the attached report on unaccounted fixed assets as of June 30, 2007; however, this alternative is not recommended because your Board has consistently supported enforcing countywide administrative policies and accountability.

In addition, the Board of Supervisors could choose to hold the respective department heads personally accountable for the missing fixed assets.

In addition, the Board of Supervisors could choose to hold the respective department heads personally accountable for the missing fixed assets.

OTHER AGENCY INVOLVEMENT:

The Auditor-Controller coordinated their efforts with the respective departments to prepare and submit this report. The Central Services Department provided our office with the fair market value of the items less than five years old.

CAO RECOMMENDATION:

APPROVE DEPARTMENT
RECOMMENDATION

DEPARTMENT HEAD SIGNATURE:



Simona Padilla-Scholtens, CPA
Auditor-Controller

**Attachments: Exhibit A - County of Solano Unaccounted Fixed Asset Inventory Status
Exhibit B - Solano County Summary of Unaccounted Fixed Assets**

Section 9. Compromise of Patient Debts

Background

- Pursuant to State law, County Ordinance Code and multiple resolutions of the Board of Supervisors, the County may forgive certain debts incurred by Santa Clara Valley Medical Center patients. Based on resolutions of the Board of Supervisors, County staff implemented two separate processes for forgiving certain patient debts. The combined annual write-offs for both processes total an estimated \$9.8 million.

Problem

- In one process, a committee is tasked with reviewing patient debts of any amount for possible reduction, and may forgive up to \$100,000. Compromise amounts in excess of \$100,000 must be approved by the Board. However, in the second process, one staff person may compromise up to 40 percent of charges, and two individuals may compromise 100 percent of charges, regardless of the dollar amount. In that second process, there is no requirement that any compromise amount ever go to the Board.

Adverse Effect

- Due to the multitude of applicable Board resolutions, County ordinances and State statutes, the delegation of authority for compromising debts in these two processes is not clear. In addition, samples of case files from both processes taken for this audit identified shortcomings in each process, including insufficient criteria and documentation, and arbitrary outcomes.

Recommendations

- The Board of Supervisors should amend the County Ordinance Code governing compromise of patient debts to abolish the existing patchwork of authorizations and replace them with a clear and coherent delegation of its authority to compromise patient debts. The resultant responsible designee(s) should develop improved policies and procedures to standardize compromise criteria and documentation.

Processes as Established by the Board of Supervisors

The Basis for Claims Against Third Parties

Santa Clara Valley Medical Center (SCVMC) sometimes provides care to patients who have been injured due to the negligence of others. Typically, these patients have been hurt in auto accidents caused by another driver, or while on the job, which then results in a liability claim. The California Government Code, commencing with Section 23004.1, grants the County the right to reimbursement from the proceeds of litigation against such third parties, and the Board of Supervisors the right to compromise, or forgive, such liens. Historically, the Board itself reviewed and signed off on every offer of

compromise, even when the dollar amounts were relatively small. To address this inefficiency, the Board in 1985 passed a resolution establishing a Hospital Lien Committee, consisting of the SCVMC Director or designee, the Director of Finance or designee, and the County Counsel or designee.

Committee Authority to Compromise Debts

The resolution delegated to the new committee the Board's authority to compromise liens of \$25,000 or less. The resolution, which is provided as Attachment 9.1, specified that the Board itself would continue to resolve all claims exceeding \$25,000. A copy of this resolution is provided as Attachment 9.1.

Subsequent resolutions passed over the years changed the name of the committee to the Hospital Debt Review Committee, increased the committee's authorized compromise amount, which was last modified in 2008 to \$100,000, and expanded the committee's authority - as the County Executive's designee - to review debts of any amount. The Committee also reviews debt reduction requests from patients in which there is no third party involved. A copy of the 2008 resolution is provided as Attachment 9.2.

Asserting Claims Against Third Parties

Despite the establishment in 1985 of a committee to review third-party claims, the County was not always aware of claims in a timely manner. For example, staff would learn of third-party litigation after the fact, as a result of an attorney requesting the medical records of injured patients. To address this problem, the Board in May 1989 passed another resolution establishing a new process. The intent was to promptly identify responsible third parties against whom collections could be proactively pursued. This 1989 resolution, a copy of which is provided as Attachment 9.3, retained the previously established committee to review and settle subsequently discovered claims, but provided for a new, entirely separate process intended to assert claims up front.

SCVMC Authority to Compromise Debts

In addition, the new resolution also granted authority to the SCVMC Director or designee the exclusive authority to compromise, or forgive, up to 40 percent of a patient's debt without consideration from any other party. The resolution required that the County Executive or designee "concur" in the forgiveness of amounts in excess of 40 percent of the debt, and that the County Executive receive reports on the program. This resolution, therefore, established a process by which very large amounts of hospital debts could be forgiven by a single individual acting alone, and 100 percent of hospital debts - regardless of the amount - could be relieved by concurrence of two individuals.

To provide staff for this new effort, the County created and staffed five new positions:

- A Liability Claims Adjuster III;
- An Advanced Clerk Typist;
- A Patient Business Service Clerk ;
- A Supervising Patient Business Service Clerk; and
- An Attorney III.

None of these positions are referenced in the 1989 resolution. However, the description of their intended roles is contained in a transmittal memo to the Board that accompanied the 1989 resolution. A copy of the memo is provided as Attachment 9.4.

According to the memo, the authority for the compromise of debts was to rest with the SCVMC Director. No designee was referenced. The memo described the role of the five new staff, none of whom were described as having compromise authority. For example, the memo stated that the role of the Liability Claims Adjuster was to:

...review police reports for every inpatient admission where an auto or motorcycle accident is involved....The Adjuster will confer with County Counsel on any cases where (sic) liability is in question....County Counsel will provide required legal expertise and guidance to the adjuster, review potential third party claims, and pursue all necessary legal remedies in those cases where collection cannot be accomplished through agreement with the party who is liable.

The following month, in June 1989, the then-County Executive issued a memo, a copy of which is provided as Attachment 9.5, which delegated her compromise authority to the Director of the then-General Services Agency (GSA), and that agency's Administrative Services Manager. At that time, GSA included the insurance claims function. The insurance claims function was moved to the Risk and Insurance Division of the Employee Services Agency (ESA) beginning in FY 1993-94, where it continued to reside as of late 2010. At present, therefore, it is unclear where the delegation of the County Executive's compromise authority resides, although presumably it resides with the ESA Director.

The Board's Authority to Compromise Debts

Subsequent to the adoption of the 1985 resolution establishing the committee, which, as described above, had limited authority to compromise claims, and the adoption of the 1989 resolution authorizing the SCVMC Director or designee and the County Executive or designee to compromise up to 100 percent of debts for newly asserted claims, the Board of Supervisors adopted an ordinance governing compromise of patient debts. That ordinance states that the authority to compromise claims rests with the Board itself. Originally adopted in 1997 as Section A18-42 of the County Ordinance Code, the same language was included in a 2009 revision of the Code as Section A18-24. The relevant code provision, in its entirety, is as follows:

The Director [of SCVMC], personally or through an assistant or employee so designated, is authorized to recommend to the County Executive compromising claims for services received from SCVMC, and may recommend agreements with patients or their legally responsible relatives or executors or administrators for the payment of less than the amount owed where full payment would result in hardship or indigency for the spouse or minor child or children of the patient; provided, however, that in recommending compromising any such claims, said Director shall give precedence to hospital care, treatment and supplies over medical services rendered in prescribing payment requirements. Final authority to compromise any such claim rests with the Board of Supervisors.

At present, therefore, the delegation of authority for the compromise of claims is unclear, as the various resolutions and code sections are inconsistent. The Board of Supervisors should amend the County Ordinance Code and relevant resolutions to clarify its intent with respect to which staff positions are invested with the Board's compromise authority.

Processes in Actual Practice

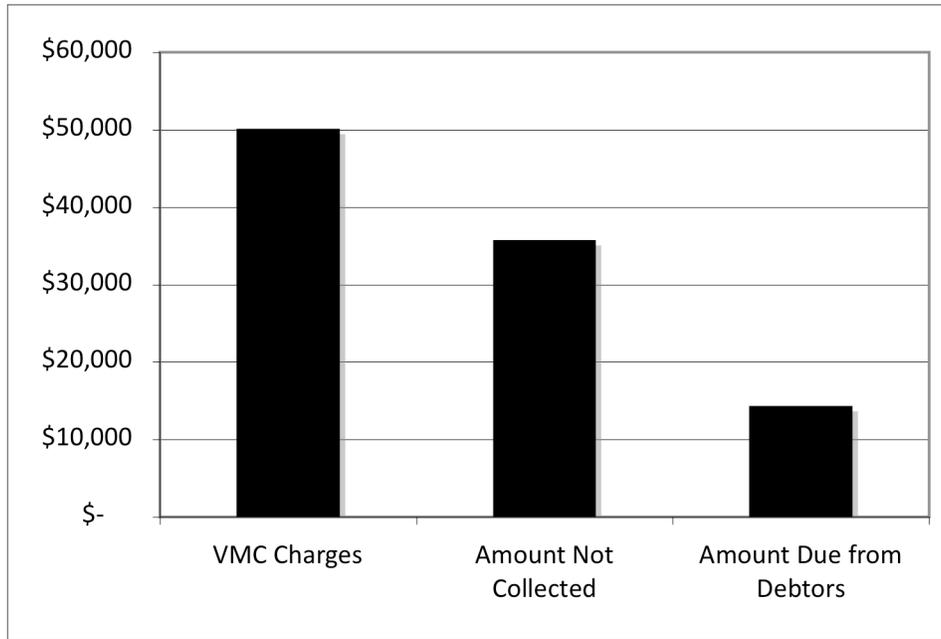
Process 1: Hospital Debt Review Committee

The Hospital Debt Review Committee is made up of an attorney from County Counsel, a SCVMC Patient Business Services Accounting Manager, and a Supervising Revenue Collections Officer from the Department of Revenue. This committee meets monthly by telephone, and reviews requests for reduction of any debt amount, whether a third party is liable or not. Audit staff estimate that the amount of debt forgiven annually by the Hospital Debt Review Committee to be \$6.9 million.

The Hospital Debt Review Committee will review the cases of an estimated 193 debtors in 2010, based on the 145 cases reviewed as of the end of September 2010. Using paper case records on file with the SCVMC Patient Business Services Manager, Management Audit staff sampled 44 of these 145 cases processed through September 2010. The total charges for these 44 cases amounted to \$2.2 million, with an average charge of \$50,000 per case. The charts that follow summarize the characteristics of the sampled cases.

Chart 9.1

**Average Charges, Amounts Not Collected and Amounts Due in
44 Sampled Cases Reviewed by the
Hospital Debt Review Committee in 2010**

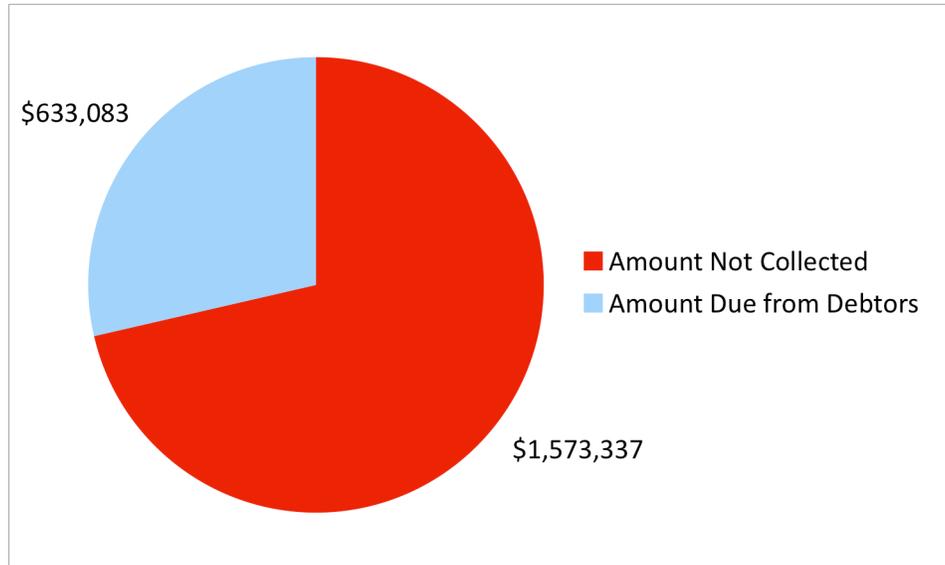


Source: SCVMC Patient Business Services, Subrogation Unit

Of the \$2.2 million in SCVMC charges, the Hospital Debt Review Committee forgave 71 percent of patient debt, as shown in Chart 9.2 on the next page. As will be discussed, the bulk of “forgiven,” “uncollected,” “compromised” or “written off” debt is not legally collectible. However, in a minority of cases, certain debts may be written off or not collected for other reasons, such as the inability of the debtor to pay, as determined by the investigation and judgment of the Debt Review Committee.

Chart 9.2

In the Sample of 44 Cases, of the \$2.2 million in SCVMC Charges, 71 Percent Was Not Collected by the Hospital Debt Review Committee



Source: SCVMC Patient Business Services, Subrogation Unit

In the majority of the sampled cases, the patients were injured in accidents caused by someone else, resulting in a claim against the liable third party. Under Government Code Section 23004.1, et. seq., the County can recover monies from judgments against third parties; under Civil Code Section 3045.1 et. seq., the County can recover monies from a settlement paid by the third party to the accident victim.

How Compromise Offers are Determined

In most of the sampled cases, the victim received payments from the responsible party's insurance company, a portion of which the Hospital Debt Review Committee (DRC) took as partial or complete payment for the SCVMC medical bills. In third-party cases, the compromise amounts are based on Civil Code Section 3045.4, which authorizes collections of up to half of the money paid under any final judgment, compromise or settlement, *after prior liens are paid*. The amount of money owed by the patient is not a factor in the statutory formula, and per the statute, the County's lien is secondary to other liens. In these cases, then, the committee can only collect a certain amount from the settlement. Therefore, in most cases, the vast majority of the amount owed is not legally collectible. This is the primary reason that an estimated 71 percent of the amount due is not collected.

In practice, in most cases¹, the amount that is legally collectible as determined by the Debt Review Committee and pursuant to the law, is the settlement amount, less attorney's fees and costs, divided by two. For example, consider a patient injured in a car accident caused by someone else, resulting in \$90,000 worth of medical care at SCVMC. Imagine the responsible driver's insurance company paid the victim \$20,000, and the attorney's fees were \$9,000, plus \$1,000 in costs. The maximum amount of the settlement that the County could collect by law is: \$20,000 (settlement amount) minus \$10,000 (attorney's fees and costs) divided by 2 equals \$5,000. The remaining \$85,000 is not legally collectible.

The committee also reviews and compromises debts that are not the responsibility of a third party. In these instances, the amounts are based on the committee's judgment. There are no written criteria for these "hardship" decisions. However, consideration is given to expected future medical treatment, eligibility for participation in charity care, available assets, working status, payment history and other relevant factors.

Process Deficiencies

Arbitrary Outcomes

Although in third-party cases the amount that the County can collect is set by statute, a significant minority of patients' attorneys offer to pay more than the law allows the County to take from the third-party settlement. In all such cases sampled, the County billed the patient for the higher amount, even when there were clear hardship circumstances for the debtor. However, in cases when a debtor simply requested a reduction in the bill due to hardship or opposition to the charges, and no third party was involved and therefore no statutory formula exists, the committee selected an amount based on its review of the patient's situation. However, there are no written criteria for these decisions, and some outcomes appeared arbitrary based on the records in the case files. For example, consider the following case circumstances and outcomes:

Patient A Received medical care at SCVMC unrelated to any injuries. She wrote a letter complaining of her treatment and the billing of her account. The committee reduced her bill by \$100,000 on August 18, 2010 for reasons not specified in the written record. Debt Review Committee (DRC) staff could not recall why the amount was reduced, but stated that the patient should have signed a promissory note for repayment of the bill.

Patient B Was injured by a third party. She was unemployed, had no medical insurance, and was on the County's charity care (Ability to Pay) program. The committee declined on August 18, 2010 to reduce her \$8,000 bill by any amount because the net settlement amount from the third party exceeded the amount of the SCVMC bills.

¹ In the case of Valley Health Plan patients, the calculation is more complex, but results in similar levels of uncollectible debt.

Patient C Owed almost \$108,000 for care at SCVMC. The committee reduced her bill by more than \$107,000 on June 16, 2010. The case file indicated that the basis for the decision was because she was on the charity program. Note that the reduction amount exceeded the committee's authority under the 2008 Board resolution. According to DRC staff, the patient's debt reduction was not as a result of the DRC's review per se, but rather was due to the application of charity care criteria, which staff stated should have occurred at the hospital without the case ever going to the DRC. In comparison, although Patient B was a charity care patient, Patient B had to pay the entire medical bill due to the receipt of settlement funds.

Patient D Incurred more than \$6,800 in charges at SCVMC as a result of injuries caused by a third party. He received a settlement of \$5,000, which under the law entitled the County to reimbursement from the settlement of \$1,660. However, because the patient's attorney offered to pay some \$2,600, the County billed the patient for that amount, even though the patient qualified for the charity program. Several patients who might otherwise have qualified for charity care or would only have had to pay the amount owed pursuant to State law were in fact billed for higher amounts because their attorneys made larger compromise offers.

Patient E Was injured by a third party. He was unemployed, had no assets, and no insurance. - His share of the settlement from the third party was less than \$8,000. The committee on January 14, 2010 declined to reduce his \$6,850 medical debts by any amount, even though he was expected to incur an additional \$24,000 in medical bills for surgeries and physical therapy.

The Board's designee as recommended in this audit should develop procedures to improve consistency, including specific criteria for debt forgiveness in those instances where the amounts are not established by statute, and all compromise decisions should be fully documented.

Role of County Counsel

Typically, County Counsel staff serve in an advisory role to other departments, and do not themselves serve on client department decision-making committees. In this case, Counsel is serving as a voting member of the Debt Review Committee, as opposed to serving as an advisor to voting members of the committee. As the Board of Supervisors establishes compromise authority, it should evaluate whether to replace County Counsel's voting role on the committee with the Employee Services Agency's Risk and Insurance Division instead, and have Counsel serve in an advisory capacity to review all cases considered by the committee

Process 2: The Inpatient Debt Compromise

The process per the 1989 resolution, as previously described, granted to the SCVMC Director or designee the exclusive authority to compromise, or forgive, up to 40

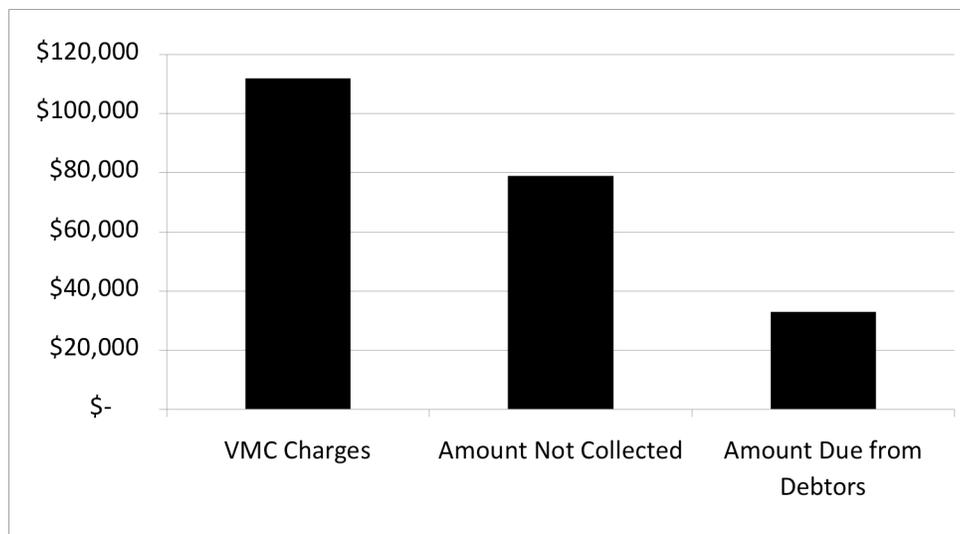
percent of a patient's debt without consideration from any other party. The resolution required that the County Executive or designee "concur" in the forgiveness of amounts in excess of 40 percent of the debt, and that the County Executive receive reports on the program.

In practice, this process is managed by the Insurance Claims Unit of the Risk and Insurance Division of the Employee Services Agency. The authorization for compromise of up to 40 percent of debts has in practice been delegated to the Insurance Adjuster position established by the 1989 transmittal. Audit staff was unable to locate any written authorization for the specific delegation of authority to this position. Audit staff estimates that the total amount forgiven in this process annually is \$2.9 million.²

For amounts in excess of 40 percent, the employee confers with the manager of the unit. These staff may also confer with SCVMC Patient Business Services regarding compromise amounts. Because the Insurance unit is making compromise offers primarily for inpatient debts, the amount of the debts involved is usually greater than those taken up by the Hospital Debt Review Committee.

Audit staff selected for review every other case that was processed by the Insurance Claims Unit in FY 2009-10, or about half of the cases. This selection included 19 files, with total SCVMC charges of \$2.1 million, and an average charge of about \$111,000 per case, as shown in the chart below.

Chart 9.3
Average Charges, Amounts Not Collected and Amounts Due in 19 Sampled Cases Reviewed by the Insurance Claims Unit in FY 2009-10



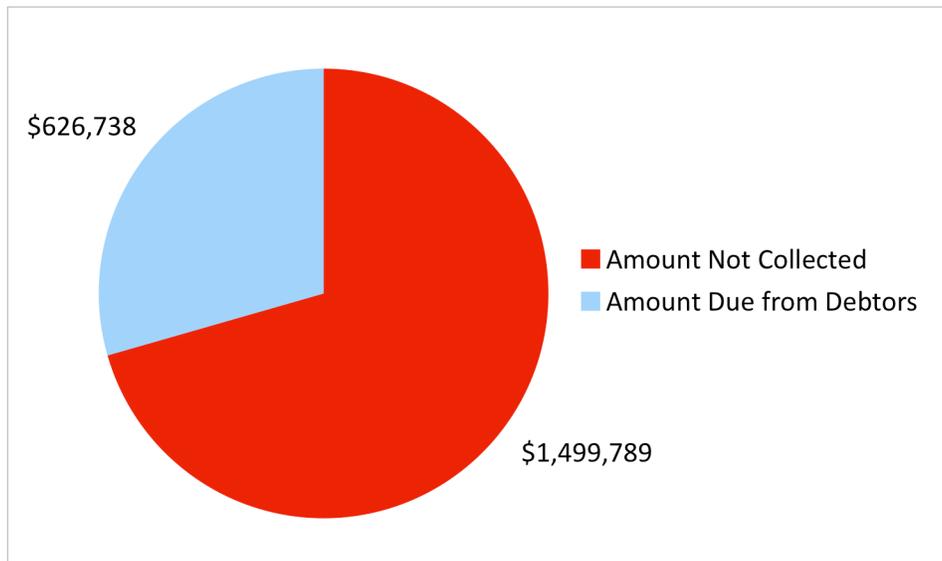
Source: County Employee Services Agency, Risk and Insurance Division

² The two processes combined result in forgiveness of an estimated \$9.8 million annually.

Chart 9.4 illustrates that the Insurance Claims Unit forgave 71 percent of patient debt, which is similar to the compromise amounts ultimately determined in the other process. This similarity is likely due to the fact that most compromise amounts are driven by statute, as described earlier in this section, in both processes.

Chart 9.4

In the Sample of 19 Cases, of the \$2.1 million in SCVMC Charges, 71 Percent Was Not Collected by the Insurance Claims Unit



Source: County Employee Services Agency, Risk and Insurance Division

Based on the sample of 19 cases reviewed by audit staff, the Adjuster usually confers with the Subrogation manager in Patient Business Services, but also may act alone.

The ESA Adjuster receives the checks that are due pursuant to the compromise through the 1989 process. The Adjuster maintains a photocopy of the check in the case file, along with deposit slips.

Unlike in the first process managed by the Hospital Debt Review Committee, ESA may compromise any amount of debt without review by the Board of Supervisors. In the sample reviewed, four³ of the 19 compromise amounts exceeded \$100,000 and were not reviewed by the Board of Supervisors per the Unit’s authority under the 1989 resolution. One of the four cases originally started out under the Hospital Debt Review Committee, but, because the Board was recessed for the summer and the case required prompt resolution in order to be able to collect, was shifted to the Insurance Claims Unit specifically to get around the \$100,000 cap imposed on the Hospital Debt Review

³ There was a fifth case in which the debt reduction exceeded \$100,000, but this was taken to the Board due to the complexity of the case.

Committee by the 2008 resolution. That debt was reduced by more than \$163,000. Other compromise amounts in excess of \$100,000 were one for about \$418,000, another for about \$146,000, and a third for about \$105,000. In the latter case, the file indicated that the Insurance Adjuster acted alone. In this case, the \$105,000 represented about 25 percent of the debt, which was well within the Adjuster's authority to compromise up to 40 percent. In 16 of the other 18 cases reviewed, the Adjuster received approval from the manager of the unit and the Subrogation manager in SCVMC, or from the Board, for the amount forgiven.

The County should not have separate processes for handling similar accounts, particularly since one requires Board approvals for compromises exceeding \$100,000, and the other process authorizes a single individual to compromise many times this amount. The inefficiency of the existing situation is highlighted by the previously cited instance in which a compromise case had to be shifted from one process to the other in order to avoid loss of collections as a consequence of the fact that the Board was recessed for the summer. The Board of Supervisors should amend the Ordinance Code and any relevant resolutions to clarify what amount, if any, it deems appropriate for Board review versus delegated to staff. All compromise cases should be subject to the same level of authorization and disclosure to the Board.

Process Deficiencies

Arrangements by Phone

In some cases, ESA compromise amounts appeared to have been negotiated by telephone, followed up by faxes or letters or notes. In contrast, in the Hospital Debt Review Committee process, compromise offers are sent in writing on the letterhead of County Counsel. In order to ensure consistency, compromise offers should be made in a consistent fashion, preferably on County Counsel's letterhead.

Process Improvements

The Board of Supervisors should amend the County Ordinance Code to clarify its intent with respect to which staff position (or designee) or committee it wishes to invest with the Board's compromise authority, and specify that level of authority, and consolidate all compromise processes under this single authority. This would eliminate the current system of multiple responsible parties, differing processes and varying levels of compromise authority. The Board should also amend the Ordinance Code and any relevant resolutions to clarify what amounts, if any, should be compromised by the Board itself.

There are a number of potential ways to consolidate the authority for debt compromise. Options include situating the authority in:

- The Valley Medical Center's Patient Business Services unit, which is currently handling many of these cases as part of the Debt Review Committee;

- The Employee Services Agency's Risk and Insurance Division, which is currently handling many of these cases; or
- A staff committee that combines the Debt Review Committee and the Risk and Insurance Division, reporting to the Board of Supervisor's Finance and Government Operations Committee.

In discussions for this audit, representatives from both Patient Business Services and Risk and Insurance have stated a desire to accept cases currently managed by the other. Suggested changes have included:

- Delegating the Board's compromise authority to Patient Business Services (PBS) of SCVMC, and bringing the ESA Adjuster under the auspices of PBS. PBS has direct access to total patient debts, all patient accounts, and the direct knowledge of whether the patient qualifies for charity care or other programs, the patient's level of assets and income, and other factors that may affect compromise decisions. PBS also involves County Counsel in all compromise decisions, and compromise decisions are issued on Counsel letterhead.
- Delegating the Board's compromise authority for third-party cases to the Risk and Insurance unit of the Employee Services Agency, while retaining the existing Debt Review Committee for non-third-party cases. This would ensure that third-party cases are handled by an Insurance Adjuster who can directly research police reports and assess liability. This employee has no direct access to full patient debts and other information but may access it by contacting PBS and the Department of Revenue.

Another alternative would be to delegate the Board's authority for debt compromise directly to a staff committee consisting of representatives of ESA's Risk and Insurance Division, SCVMC's Patient Business Services Unit, and the Department of Revenue, with an assigned County Counsel representative to provide advice and issue committee communications on Counsel's letterhead. Such a committee could determine settlements by a vote of its members.

CONCLUSION

Based on resolutions of the Board of Supervisors, County staff implemented two separate processes for forgiving certain patient debts, estimated to result in annual write-offs of \$9.8 million. In one process, a committee is tasked with reviewing patient debts of any amount for possible reduction, and may forgive up to \$100,000. Compromise amounts in excess of \$100,000 must be approved by the Board. However, in the second process, one staff person may compromise up to 40 percent of charges, and two individuals may compromise 100 percent of charges, regardless of the dollar amount.

Due to the multitude of applicable Board resolutions, County ordinances and state statutes, the delegation of authority for compromising debts in these two processes is not clear. In addition, samples of case files from both processes taken for this audit identified shortcomings in each process. The Board of Supervisors should amend the County Ordinance Code governing compromise of patient debts to abolish the existing patchwork of authorizations and establish a clear and coherent delegation of its authority to compromise patient debts. The resultant responsible designee(s) should develop improved policies and procedures to improve internal controls, and develop criteria for compromise of debts that are not governed by statute.

RECOMMENDATIONS

The Board of Supervisors should:

- 9.1 Amend the County Ordinance Code to clarify its intent with respect to which staff position (or designee) or staff committee is invested with the Board's compromise authority, and specify that level of authority, and consolidate all compromise processes under this single authority, thus eliminating multiple responsible parties, differing processes and varying levels of compromise authority. (Priority 1)
- 9.2 Amend the Ordinance Code and any relevant resolutions to clarify what amounts, if any, should be compromised by the Board itself. (Priority 1)

The Board designee or committee, pursuant to Recommendation 9.1, should:

- 9.3 Develop procedures to:
 - a. Specify how claims will be compromised and what role affected departments will play in terms of researching, investigating and/or voting on compromise amounts;
 - b. Improve consistency in terms of compromise of amounts not governed by statute;
 - c. Provide for consistent and clear documentation of compromise decisions; and
 - d. Ensure that compromise offers are presented consistently to debtors, preferably in writing on County Counsel letterhead. (Priority 2)
- 9.4 If the Board designee or committee identified pursuant to Recommendation 9.1 elects to retain a staff committee process, the designee's procedures pursuant to Recommendation 9.3 should specify Counsel's role as advisory to the committee, rather than a voting committee member. (Priority 3)

SAVINGS, BENEFITS AND COSTS

There is no budget impact associated with these recommendations; however, specific department budgets could be affected if staff were to be shifted from one budget unit to another. Implementation of these recommendations would ensure that persons making debt compromises on behalf of the County are properly authorized to make those compromises, clarify roles and responsibilities, and result in improved documentation and standardization of debt compromise outcomes.

Office of the County Counsel
County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110
282-2111 Area Code 408

County of Santa Clara

California

December 9, 1985

rk, County Counsel

460X

MEMORANDUM

TO: Honorable Board of Supervisors
FROM: County Counsel
Deputy County Counsel *mf*
SUBJECT: Resolution Authorizing Settlement of Valley Medical Center Litigation Claims by Hospital Lien Committee

Recommended Action

It is recommended that the Board of Supervisors approve the attached Resolution establishing a Hospital Lien Committee composed of the Director of Valley Medical Center, the Director of Finance and the County Counsel for the purpose of compromising hospital liens up to and including the amount of \$25,000.00.

Fiscal Implications

Adoption of this resolution carries no direct fiscal impact. The members of the Committee or their designees will serve on the Committee as part of their job responsibilities. The Committee's assigned task, to consider the compromise of medical liens, will facilitate the collection of revenue from third party litigation conducted by VMC patients. The revenue impact is not presently ascertainable.

Reasons for Recommendation

The Board of Supervisors is currently reviewing every offer of compromise regardless of amount. The resolution reserves the compromise of liens in amounts over \$25,000.00 to the Board while delegating direct responsibility for evaluating offers to compromise smaller liens to a committee representing affected departments. The resolution will increase the Board's efficiency in responding to offers of compromise.

Steps Following Approval

County Counsel will call the first meeting of the Committee.

Attachment

ORIGINAL

*11/11 10 copies
Finance
General*

**RESOLUTION OF THE BOARD OF SUPERVISORS
AUTHORIZING SETTLEMENT OF VALLEY MEDICAL CENTER
LITIGATION CLAIMS BY THE HOSPITAL LIEN COMMITTEE**

WHEREAS, some patients receiving services from Valley Medical Center are involved in litigation over the injuries which resulted in the need for treatment; and

WHEREAS, pursuant to Government Code §23400.1, the County of Santa Clara has a right to reimbursement from the proceeds of litigation against third parties, which may be settled by the County upon election of the Board of Supervisors to be governed by such section; and

WHEREAS, numerous claims arise in both civil and worker's compensation litigation with relatively nominal sums for medical treatment involved; and

WHEREAS, the Board of Supervisors finds that delegation of authority to settle claims in an amount up to and including TWENTY-FIVE THOUSAND DOLLARS (\$25,000.00) to a hospital lien committee would expedite handling of litigation claims generated by Valley Medical Center and the various health clinics; and

NOW THEREFORE, BE IT RESOLVED, that the hospital lien committee is created and authorized to compromise rights of reimbursement to Valley Medical Center and related health centers arising out of civil and worker's compensation litigation where the amount due and owing are less than or equal to TWENTY-FIVE THOUSAND DOLLARS (25,000.00), all claims exceeding that amount to be referred to the Board of Supervisors for resolution

BE IT FURTHER RESOLVED, that the hospital lien committee shall be administered through the Department of Finance-Revenue Division and shall consist of:

ORIGINAL

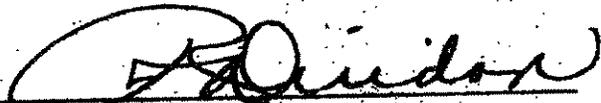
1 cc County Counsel, Margarita O. Prado KIC 12/23/85

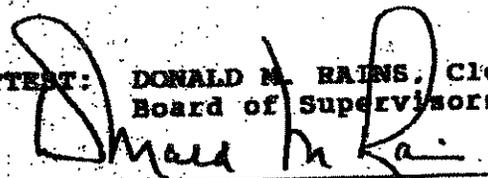
1. The Director of Valley Medical Center or authorized representative;
2. The Director of Finance or authorized representative;
3. The County Counsel or authorized representative;

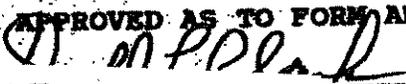
BE IT FURTHER RESOLVED, that the committee shall meet no less frequently than quarterly or more frequently as the need arises or circumstances warrant and shall statistically report to the Board of Supervisors no less frequently than quarterly.

PASSED & ADOPTED by the Board of Supervisors of the County of Santa Clara, State of California on DEC 17 1985 by the following vote:

AYES: Supervisors DIRIDON, LEGAN, LOFGREN, MCKENNA, WILSON
 NOES: Supervisors NONE
 ABSENT: Supervisors NONE


 Rod Diridon, Chairperson
 Board of Supervisors

ATTEST: DONALD M. RAINS, Clerk
 Board of Supervisors


APPROVED AS TO FORM AND LEGALITY:

 Donald L. Clark
 County Counsel

DLC:aan
 0874g

**RESOLUTION OF THE COUNTY OF SANTA CLARA
BOARD OF SUPERVISORS
INCREASING THE SETTLEMENT AUTHORITY
OF THE COUNTY EXECUTIVE OR DESIGNEE FOR
HEALTH AND HOSPITAL SYSTEM DEBT OWED TO THE COUNTY**

WHEREAS, on December 15, 1985, the Board of Supervisors created the Hospital Lien Committee to review and if appropriate, compromise the County's rights of reimbursement to the Santa Clara Valley Medical Center and related health centers arising out of third party litigation in which the amount due was less than or equal to \$25,000; and

WHEREAS, on October 2, 1990, the Board of Supervisors increased the authority of the Hospital Lien Committee to review and if appropriate, compromise the County's rights of reimbursement in which the amount due was less than \$50,000; and

WHEREAS, on January 26, 1999, the Board of Supervisors authorized the Hospital Lien Committee to review, and if appropriate, compromise hospital charges in cases when the County has a statutory right to file a lien on a settlement or judgement and one of the following circumstances exists: (1) the patient, his or her estate, or legally-responsible relatives are unable to pay the full amount of charges; (2) collection of the charges is barred by the statute of limitations or is otherwise legally unenforceable; (3) the cost of administering a collection procedure would exceed the amount of revenue that might reasonably be anticipated would be recovered; or (4) other situations where the circumstances dictate that it would be in the best interest of the County to compromise the debt; and

WHEREAS, the Department of Revenue recovers hospital debt from patients through litigation or the application of one of four major types of liens: lien against judgment (Government Code section 23004.1, et. seq.), lien against settlement (Civil Code section 3045.1, et. seq.), a statutory lien (Civil Code section 2881, et. seq.), and a hospital care lien (Civil Code section 3040); and

WHEREAS, the Board of Supervisors wishes to rename the Hospital Lien Committee the Hospital Debt Review Committee to more accurately reflect its scope and purpose; and

WHEREAS, the Board of Supervisors finds that delegating authority to the County Executive or, as his or her designee, the Hospital Debt Review Committee to review and if appropriate, compromise by reducing the amount of any claim in an amount up to and including one hundred thousand dollars (\$100,000), regardless of the total amount of the claim, would expedite the handling of third-party litigation and other cases as described above so as to efficiently recover sums owing to Santa Clara Valley Health and Hospital System;

NOW THEREFORE BE IT RESOLVED by the Board of Supervisors of the County of Santa Clara, that the Hospital Lien Committee is renamed the Hospital Debt Review Committee

and hereby authorizes the County Executive or, as his or her designee, the Hospital Debt Review Committee to review, and if appropriate, compromise the amount of reimbursement for services provided by the Santa Clara Valley Health and Hospital System arising out of the County's right to pursue legal action against a debtor by reducing the amount of any claim, regardless of the total amount of the claim, in an amount up to and including one hundred thousand dollars (\$100,000) when one of the following circumstances exist: (1) the patient, his or her estate, or legally-responsible relatives are unable to pay the full amount of charges; (2) collection of the charges is barred by the statute of limitations or is otherwise legally unenforceable; (3) the cost of administering a collection procedure would exceed the amount of revenue that might reasonably be anticipated would be recovered; (4) neither the patient nor his legally responsible relatives can be located; or (5) the circumstances dictate that it would be in the best interest of the County to compromise the debt. This delegation shall be effective November 18, 2008 forward.

PASSED AND ADOPTED by the Board of Supervisors of the County of Santa Clara, State of California, on _____ by the following votes:

AYES: SUPERVISORS

NOES: SUPERVISORS

ABSENT: SUPERVISORS

Pete McHugh, Chair Date
Board of Supervisors

ATTEST:

Maria Marinos Date
Clerk of the Board of Supervisors

APPROVED AS TO FORM AND LEGALITY:

Date 11/12/2008
Deputy County Counsel

Resolution re Delegation of Authority
to Hospital Debt Review Committee

2

Rev. 11/18/2008

Handwritten signature

RESOLUTION OF THE BOARD OF SUPERVISORS
AUTHORIZING THE SANTA CLARA VALLEY MEDICAL CENTER EXECUTIVE
DIRECTOR TO COMPROMISE AND SETTLE CERTAIN CLAIMS UNDER
GOVERNMENT CODE §23004.1 AND AUTHORIZING COUNTY COUNSEL
TO COMMENCE LITIGATION ON SUCH CLAIMS AS REQUIRED

WHEREAS, pursuant to Government Code §23004.1 the County of Santa Clara has the right to recover the costs of a patient's care and treatment at Santa Clara Valley Medical Center from Third parties who would have tort liability for such injuries; and,

WHEREAS, compromise and settlement of such claims is authorized by Government Code §23004.2 and has been delegated to a hospital lien committee up to an amount of \$25,000 pursuant to a resolution of this Board dated December 17, 1985; and,

WHEREAS, in order to increase the level of collections on such claims it is necessary that a procedure be established at Santa Clara Valley Medical Center which will allow claims to be asserted at the earliest possible date after medical services are rendered and that the County be able to respond expeditiously to requests for compromise and settlement of such claims; and,

WHEREAS, a timely review of admissions to Valley Medical Center will allow for the early assertion of claims against third parties and the delegation of the authority to compromise and settle such claims to the Santa Clara Valley Medical Center Executive Director or his designee will allow for the flexibility necessary to early resolution of such claims; and,

WHEREAS, a quarterly reporting requirement and a requirement that the County Executive or her designee concur in any settlement

5/14/09 gpw

Fully executed original to Valley Medical Center-Administration-Robert Sillien;

copy
ORIGINAL

which would reduce the County's claim to less than 60% of Valley Medical Center's charges would maintain accountability; and,

WHEREAS, in those instances in which a claim has not been asserted and an account has been assigned to the Department of Revenue it is appropriate for the Hospital Lien Committee to act on subsequently discovered claims; and,

WHEREAS, in instances in which a third party tortfeasor or his or her insurer refuses to make payment on the County's claim for reimbursement of the costs of medical care it is necessary that suit be commenced to protect the County's right to recover;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Supervisors of the County of Santa Clara hereby delegates to the Santa Clara Valley Medical Center Executive Director or his designee the authority to compromise and settle those claims asserted by the Executive Director under Government Code §23004.1 on behalf of the County against third parties for the costs of a patient's care and treatment at Valley Medical Center;

BE IT FURTHER RESOLVED, that the delegation herein shall be subject to the requirement that the County Executive or her designee concur in any compromise and settlement which would reduce a claim to less than 60% of Valley Medical Center's charges;

BE IT FURTHER RESOLVED, that County Counsel is authorized to file suit against any third person who in the opinion of counsel has tort liability for all or a portion of the costs of a patient's care and treatment at Valley Medical Center;

BE IT FURTHER RESOLVED, that the Santa Clara Valley Medical Center Executive Director is directed to report to the County

Executive on the results of collection efforts against third parties on a quarterly basis.

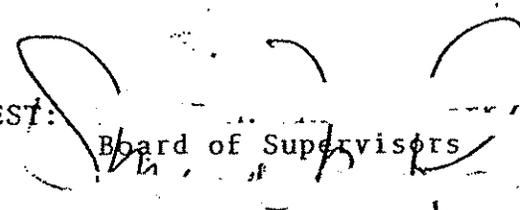
PASSED AND ADOPTED by the Board of Supervisors of the County of Santa Clara, State of California on MAY 9 1969 by the following vote:

AYES: Supervisors DIRIDON, GONZALES, LOFGREN, MCKENNA, WILSON

NOES: Supervisors None

ABSENT: Supervisors None


Rod Diridon, Chairperson
Board of Supervisors

ATTEST: 
Board of Supervisors

APPROVED AS TO FORM AND CONTENT


Deputy County Counsel

RJM:kgs
Id:361

Santa Clara Valley Medical Center
51 South Bascom Avenue
San Jose, California 95128
(408) 299-5100



Prepared by:

Senior Health Care
Systems Analyst

Reviewed by:

Associate Director
Santa Clara Valley
Medical Center

Submitted by:

Executive Director
Santa Clara Valley
Medical Center

APPROVED BY THE BOARD OF SUPERVISORS
OF SANTA CLARA COUNTY MAY 9 1989
DONALD M. RAINS, Clerk of the Board
By *Paul Weiss*
Deputy Clerk

Director, GSA

County Counsel

April 20, 1989

TO: Board of Supervisors
FROM: Executive Director
Santa Clara Valley Medical Center

SUBJECT: Third party collection program at Santa Clara Valley Medical Center

RECOMMENDED ACTION

1) Adopt the attached resolution delegating to the Santa Clara Valley Medical Center Executive Director the authority to compromise and settle certain third party liability claims .

2) Adopt the attached Salary Ordinance amendment authorizing the creation of the following positions:

- One Liability Claims Adjuster III at the General Services Agency-Insurance
- One Advanced Clerk Typist at the General Services Agency-Insurance
- One Patient Business Service Clerk at SCVMC Patient Business Service Department

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SCVMC is an EEO/AA Employer

MAY 9 1989

5/12/89 SPW
Approved copy Valley Medical

- One Supervising Patient Business Service Clerk at SCVMC Patient Business Services Department
- One Attorney III at County Counsel

3) Adopt the attached Appropriation Modification Form for the purchase of modular furniture at a total cost of \$7,500.

FINANCIAL IMPACT

The FY 88-89 costs associated with the implementation of the proposed program will be approximately \$18,624. SCVMC will absorb these costs within its current year budget. FY 89-90 costs associated with the program will be approximately \$230,987 and will be offset by an estimated \$500,000 in incremental revenue. It is anticipated that during future years of the program the net revenue generated by the program may significantly exceed that of FY 89-90.

REASONS FOR RECOMMENDATION

Adoption of the proposed resolution along with the addition of the five new positions will allow SCVMC, in cooperation with County Counsel and GSA-Insurance, to implement a program to increase collections of third party liability claims.

The addition of the requested positions is necessary in order to provide the personnel to manage and carry out the collection activities authorized under the resolution.

BACKGROUND

Under Government Code 23004.1, a lien in favor of the county is established against the proceeds of any settlement or judgment against a third party tortfeasor who caused the injuries of a person receiving treatment in a county hospital. This section also allows the county to pursue an independent cause of action against the third party. Currently, Santa Clara County does not attempt to identify third party liability cases. Rather, efforts are made to enforce its lien only after an attorney requests copies of patient bills or medical records for use in litigation.

Under the proposed program, the Liability Claims Adjuster, reporting to GSA-Insurance, will review police reports for every inpatient admission where an auto or motorcycle accident is involved. These reports will be routinely requested by the Adjuster. The Adjuster will confer with County Counsel on any cases where liability is in question. The Advanced Clerk Typist assigned to GSA-Insurance will provide the necessary clerical support for the Liability Claims Adjuster. (The request for authorization to purchase modular furniture is made necessary by current space constraints at GSA Insurance. The two additional GSA Insurance employees to be added as part of this program cannot be accommodated within the presently available space

without the use of additional modular furniture). County Counsel will provide required legal expertise and guidance to the adjuster, review potential third party claims, and pursue all necessary legal remedies in those cases where collection cannot be accomplished through agreement with the party who is liable. The Supervising Patient Business Services Clerk at SCVMC will manage the related billing and collection activities at SCVMC Patient Business Services Department and serve as a liaison with the Adjuster and County Counsel. The Patient Business Services Clerk will provide the program billing and clerical support at SCVMC necessary to ensure that both current operations and those generated under the proposed program are adequately staffed.

This process will permit the hospital to assert its claim at the earliest possible point in time and therefore significantly increase the probability of collection. Under the proposed resolution, the Santa Clara Valley Medical Center Executive Director or his designee will be delegated the authority, within the proscribed limitations, to compromise and settle claims asserted under Government Code 23004.1. The ability to assert a claim as soon after the delivery of medical services as possible coupled with the authority to expeditiously settle the claim will permit the highest possible level of collection.

The program described above is modeled after a similar program now in operation in Fresno County. SCVMC and County Counsel staff have made several site visits to Fresno and have reviewed the Fresno program in detail. Additionally, Santa Clara County Insurance Risk Management staff have discussed the Fresno program at length with their counterparts in Fresno. In FY 1987-88 the Fresno program collected \$700,000. As of January 20, 1989 of this fiscal year, \$1,030,000 has been collected with an uncollected balance of \$6,000,000. Total collections of \$2,000,000 are projected by fiscal year end.

Valley Medical Center Fresno and Santa Clara Valley Medical Center are comparable facilities in terms of ownership, patient volume, available services e.g., trauma center, and patient financial mix. Given these similarities it is reasonable to anticipate comparable results from our increased attempts at third party liability collections. However, there is a certain start up period during which personnel costs will be incurred with no accompanying revenue stream. The FY 88-89 costs of \$18,624 noted above recognize this and reflect both our desired June 1, 1989 hire date for program staff and our estimate that no material revenue will be forthcoming during the first month of the program. As to FY 89-90, the program's first full year, we feel it is prudent to anticipate \$500,000 in revenue, again, based on Fresno's experience. As the program develops over time, it may be possible to increase revenue further to a level comparable to that of Fresno.

CONSEQUENCES OF NEGATIVE ACTION

The anticipated increase in third party liability collections

will not occur.

STEPS FOLLOWING APPROVAL

Recruitment and hiring will begin for the five new positions followed by implementation of the programmatic details.

GSA-Insurance will pursue acquisition of modular furniture to accommodate additional staff.

Quarterly reports detailing the progress of the program will be provided to the County Executive and the Santa Clara Valley Medical Center Joint Conference Committee.

Frank
Doe

County of Santa Clara
General Services Agency

1555 Berger Drive, Building 3
San Jose, California 95112
(408) 299-3242



RECEIVED

DATE: June 30, 1989

JUL 13 1989

TO: General Services Agency

PATIENT BUSINESS SERVICES

FROM: County Executive *[Signature]*

SUBJECT: DESIGNATION OF AUTHORITY TO COMPROMISE AND SETTLE CLAIMS ASSOCIATED WITH THE VALLEY MEDICAL CENTER SUBROGATION PROGRAM

In establishing a VMC Subrogation program, the Board of Supervisors adopted a resolution which included, among other things, the following provisions.

* "WHEREAS, a quarterly reporting requirement and a requirement that the County Executive or her designee concur in any settlement which would reduce the County's claim to less than 60% of Valley Medical Center's charges would maintain accountability."

"BE IT FURTHER RESOLVED, that the delegation herein shall be subject to the requirement that the County Executive or her designee concur in any compromise and settlement which would reduce a claim to less than 60% of Valley Medical Center's charges."

By way of this memorandum, I am designating the Director of General Services and the General Services Agency Administrative Services Manager III to act in my behalf in implementing requirements of the program described in the resolution.

In assigning this responsibility, it is my expectation and understanding that I will be kept apprised quarterly of the status of the program as provided for in the resolution and, if necessary, on a more frequent basis.

jab/607

- cc: Director, VMC
- Administrative Services Manager, GSA
- Chief Deputy County Counsel
- Supervising Claims Adjuster, GSA Insurance
- Asst. Director, Patient Accounts, VMC
- Clerk of the Board

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Section 10. Budget Policies, Procedures and Organization

Background

- The FY 2010-11 Santa Clara Valley Medical Center (SCVMC) budget totals about \$1.1 billion, comprised of more than 300 cost centers and 5,100 full-time equivalent positions, to serve the medical needs of County residents. Due to the financial stress on the County, resulting from the protracted economic recession and the increasing cost of annual SCVMC operating losses, it is imperative that the SCVMC financial management function be given the highest priority and that budget development, implementation and monitoring be a direct responsibility of all cost center managers.

Problem

- However, several weaknesses are associated with the budget process historically utilized by the Santa Clara Valley Health and Hospital System (SCVHHS) Finance Division, including: 1) a lack of comprehensive budget policies and procedures governing budget preparation and monitoring that includes a definition of the duties and responsibilities of the SCVHHS Budget Director and cost center managers; 2) limited budget documentation that generally includes only electronic spreadsheets, without explanation of budgeting methods, justifications and assumptions; 3) budget development that generally occurs in a top-down manner from the central budget office, with very limited involvement of cost center managers; 4) no centralized responsibility for maintaining current organizational charts and related organizational information; and 5) a shortage of staffing in the central SCVHHS budget and financial management office that is needed to adequately monitor revenues and expenditures and enhance the cost-effectiveness of operations.

Adverse Effect

- As a result, many cost-center managers have limited knowledge of their budgets, receive budget allocations that are not always consistent with current expenditure levels or workload, and therefore do not always take responsibility for their budgets. Furthermore, central financial management staff is spread too thinly to fully perform some of their essential budget planning, analysis and monitoring responsibilities, which leads to organizational fiscal problems that they may have otherwise mitigated.

Recommendations

- By implementing comprehensive budget policies and procedures that fully integrate cost center managers into the budget process and provide incentives for successful budget management, and by reallocating staff resources to the SCVHHS Finance Division, cost center managers will be more accountable for meeting their budgets, and improved control over hospital expenditures will result.

Background

The FY 2010-11 Santa Clara Valley Medical Center (SCVMC) budget amounts to \$1.08 billion and funds a total of 5,104 full-time equivalent (FTE) positions, making it the largest budget of any County department. It is also the most complex with more than 300 cost centers with budgets ranging from \$37,728,669 to (\$690,233). Because of the large dollar amount of the SCVMC budget (\$1.08 billion) when considered with the General Fund budget (\$2.19 billion), SCVMC increases the General Fund exposure to financial risk by about 50 percent, since it relies on the General Fund to subsidize its annual operating losses (\$165.7 million in FY 2009-10). Consequently, it is critical that the financial management of SCVMC be staffed with the County's most qualified and expert staff, and perform at the highest level possible. All financial, budget and operating analyses and reports must be precise, timely and thoroughly documented. If the County is to continue to provide its residents with the high level of services that it has in recent years, it can expect nothing less from the financial operations at SCVMC, particularly given the financial stress placed on the County by the most severe economic recession since the Great Depression of the 1930s.

Improvements Needed in Budget Development and Monitoring

Despite the obvious importance of SCVMC's financial operations, it is clear that numerous organizational deficiencies exist that prevent financial management staff from performing with the precision and timeliness that is required and expected. These deficiencies pertain to:

1. A lack of comprehensive written budget policies and procedures up to and including FY 2009-10. Historically, SCVHHS also utilized a top down budgeting process that minimized the involvement of cost center managers, rather than encouraging their participation and creating buy-in and acceptance of responsibility for budgetary success at the cost center level. During this audit, SCVHHS began the process to develop written budget policies and procedures and transition to a process that includes the cost center managers. SCVHHS reports a procedure manual is now in draft format.
2. The absence of desk procedure manuals for key positions, including the Budget Director.
3. The lack of annual budget files with complete documentation supporting the projected amounts in the annual Recommended Budget.
4. The absence of complete and up-to-date organization charts.
5. Inadequate staffing in the SCVHHS Finance Division to perform all of the budget and finance functions that are necessary to proactively oversee SCVMC's \$1.08 billion complex financial operations.

1. SCVHHS Organizational Budget Policies and Procedures

To ensure that the SCVMC annual budget submitted to the County Executive and Board of Supervisors is thoroughly planned, calculated with precision, fully supported by appropriate documentation and completed in a timely manner, comprehensive policies and procedures must be developed, maintained and disseminated throughout the organization to all managers and staff involved in the annual budget process. Such procedures should describe the following SCVHHS reports that the new draft procedure manual addresses these points:

- Who is responsible for development and review of the proposed budget;
- The calendar of due dates during the process;
- The recommended methodologies and information sources;
- The forms to be used;
- Work paper documentation standards and retention requirements;
- Quality control procedures and other budget development issues; and
- Budgetary duties and responsibilities of cost center managers and other positions in the organization.

The budget for each cost center should be developed by each manager responsible for cost center operations, reviewed by the division manager, and reviewed, analyzed and compiled into the Departmental budget by the Office of the Budget Director. This is not the process that has been followed by SCVHHS fiscal staff in the past.

Over the years, the budget process has been streamlined by utilizing a central office projection-based approach relying on the use of large spreadsheets, inflation factors, prior year budget amounts and operating statistics to project future budget requirements. This high-level analytical approach has not provided the precision needed to minimize the variance between budgeted and actual expenditures and revenues¹. It has also deprived the organization of a thorough and broad understanding of the budget at the cost center level, which is where the expenditures occur, and has substantially removed accountability from the budget process. Cost center managers are the most knowledgeable of their operations and must have primary responsibility for the development, implementation and monitoring of their budgets. SCVHHS reports that for FY 2010-11, there was some increase in the participation of cost center managers in the development of the budget, although the cost center managers we interviewed reported minimal involvement in both the development of the budget and the service level the budget would provide.

¹ Most obviously, year-to-year proposed budget changes are not made with reference to actual expenditures for prior years, creating a situation where budgets do not reflect current realities.

During the past fiscal year, the Budget Director retired and was replaced by an existing Management Analyst. He reported that the Budget Office did not have comprehensive written policies and procedures related to the preparation of the annual budget. However, it is reported that he has now completed a draft policies and procedures manual. In addition to involving cost center managers in a bottom-up budget development process, SCVHHS should consider a system of incentives to reinforce the managerial responsibility of each cost center manager for their respective budgets. As an example, cost centers that expend less than their approved budget for any fiscal year could be allowed to keep in a reserve fund a percent of the savings, up to a fixed dollar amount (i.e., \$2 million department-wide to be allocated to cost centers based on their proportionate share of savings achieved). Monies in the reserve could be accumulated from year-to-year and used to purchase needed items for their cost centers, subject to approval of the department manager. Similarly, cost centers whose primary function is billing, coding or another part of the revenue production process could be offered a revenue goal or productivity based incentive. SCVHHS reported that the cost center managers all signed off on their services and supplies budget for FY 2010-11.

2. Budget Office Policy and Procedure Manual

In addition to the organizational budget policies and procedures that establish the general budget process, timelines and responsibilities on an organization-wide basis, it is essential that the SCVHHS Budget Office have its own more detailed and specific policies and procedures describing how the Office is to conduct the annual budget development and monitoring process, as well as the duties and responsibilities of key positions within the Office.

Because the new SCVHHS Budget Director did not have substantial prior budget experience, we inquired if there was a policy and procedure manual for the Budget Office (Cost Center 6872) that provided some level of detailed guidance related to the duties and responsibilities of the office and its four staff regarding the specific tasks they are required to perform during the year, the timing of such tasks, the source of the information required to complete the tasks, samples of previous reports, etc. The Budget Director reported that there were no written policies and procedures for the Budget Office, and no desk manual for his new job as Budget Director.

3. Prior Year SCVHHS Departmental Budget Files

Documentation of the annual budget is essential in order to ensure that appropriate analysis based on accurate and complete information was utilized to formulate the numbers that are included in the Recommended Budget. Such information also provides a document trail that is subject to audit and verification by third parties, and serves as an historical record that can be used to facilitate and improve the calculation of projections used in subsequent fiscal years. All of these benefits provide additional assurance to the Board of Supervisors that the Recommended Budget is sound, that the calculations are accurate and that the assumptions used are reasonable.

However, as with organizational budget policies and procedures, and the Budget Office desk manual, no annual departmental budget files were maintained by the Budget Office. Without the benefit of detailed budget policies and procedures to describe the process used by SCVHHS, the timing of budget tasks, and the positions throughout the organization that would be involved in the preparation of the annual budget, and without a Budget Office policy and procedure manual describing the specific duties and responsibilities of Budget Director, planning for the preparation of the subsequent fiscal year budget would be difficult at best. Although prior year budget files should provide a clear trail of the process used and the end result of the County Executive recommended and the Board adopted budgets, the Budget Director reported that the Budget Office did not have a set of annual budget files containing all of the schedules, spreadsheets and other documentation used to develop prior fiscal year budgets.

Consequently, the only information available from the prior fiscal year budget was in the form of large and complex electronic spreadsheets, some containing thousands of rows and more than 30 columns of information. However, there was no written description of the methodologies used, the assumptions made, or the justifications for changes in service levels from year-to-year, except for brief and limited notes scattered throughout the spreadsheets, and the formulas in the spreadsheet cells. However, certain costs included in the SCVMC budget such as insurance, debt service and other intra-County costs that were prepared by other County departments were documented by those departments.

4. Organization Charts

Organization charts comprise an important part of the internal controls of an organization. They define the functions and component units that make up an organization, illustrate the staffing and financial resources dedicated to each function, and describe the chain of command that is responsible for the execution of the organizational mission. In addition, in complex organizations such as SCVMC, with more than 300 cost centers, it is useful to develop and maintain an organizational compendium describing the purpose, function and other characteristics of each cost center to help avoid duplication and inconsistencies, promote better understanding of the organization's operations, and to enhance organizational efficiency².

However, no single office in SCVHHS is responsible for maintaining organization charts. The Chief Fiscal Officer reported that each cost center is responsible for maintaining its own, yet the cost centers we asked for a current organization chart did not have one readily available. Although SCVHHS administration did have a set of organization charts, these charts also contained some outdated information. Further, no organizational compendium has been developed that lists all SCVHHS cost centers and

² An organizational compendium would be similar to the description of major functions and programs found in the Mandate Studies (described as an encyclopedia of County services) prepared for the County Executive and the Board of Supervisors.

describing the purpose, operations, legal authority and responsibilities. Consequently, when we inquired what certain organizational cost centers were responsible for, staff did not have an immediate answer and had to locate and review budget reports to respond.

5. Inadequate SCVHHS Finance Division Staffing

The SCVHHS Finance Division is responsible for preparing and monitoring the budget, accounting for all revenues and expenditures, billing for all SCVHHS patient services, compliance oversight, contract management and other financial activities. Although the Division has approximately 300 authorized positions, its Finance Administration and Budget Office cost centers have a total of only seven positions, of which only four have full-time budget related responsibilities. To successfully manage a budget the size and complexity of the SCVMC budget, full-time staff must be assigned to monitor all revenue and expenditure accounts, as well as workload productivity in relation to budgeted workload, down to the cost center level, and do this on a real-time basis. That level of management analysis and information is not occurring and has not occurred in the past, which partially accounts for the level of operating losses that SCVMC has experienced.

A second contributing factor has been the budget process (previously described) that has not included cost center managers to the extent that they buy-in to and accept responsibility for managing their budgets with the understanding that success will produce rewards in the form of tangible incentives. Unlike all other County departments³, SCVMC must compete with surrounding private hospitals in the County of Santa Clara and adjacent counties. These private-sector-for-profit hospitals have a competitive advantage of not having to serve the majority of the government insured patients and the medically indigent within the County. Consequently, if SCVMC fails to aggressively monitor and analyze all aspects of its finances on a continuous basis, its losses will continue to increase until the Board of Supervisors is forced to cut hospital and clinic services, due to the inability to finance the ongoing losses.

With the current staffing level, the SCVHHS Finance Division has not been able to perform the required level financial oversight. The following are examples of some budget related issues that continue to emerge and illustrate this ongoing staffing problem.

³ The only exception is the Airport Department, which is also an enterprise fund, but unlike SCVMC, the Airport has a near monopoly in the area since there are no competing general aviation airports other than Oakland International and San Francisco International, which are really not competitors due to the volume of commercial aviation at those airports.

- **June 2009: Unnecessary Costs Included in the Budget**

The FY 2009-10 SCVMC proposed budget included estimated net interest expenses of \$26.98 million, including \$1.64 million of extraordinary debt financing interest costs related to losses incurred upon refinancing of a prior bond issues, bond discounts when issuing bonds (bonds sold below par value of \$1,000 per bond), and other deferred charges. The Controller-Treasurer confirmed that such costs must be accounted for in the annual financial statements, but do not require funding in the budget, since these costs were paid in prior years from the bond proceeds at the time of the refinancing transaction. Either through the SCVHHS internal review process, or through discussions with the Controller-Treasurer's debt management staff, this \$1.64 million cost should have been excluded from the Recommended Budget. However, due to the budget and year-end fiscal workload, SCVHHS fiscal staff do not have the time to devote to the quality control verification activities that could have identified this issue.

- **October 2009: Budget Based on Reserves Triggers Cash Problem**

In October 2009, the Controller-Treasurer identified a General Fund cash problem and determined that it was triggered by SCVMC budgeted expenditures that were not funded by cash resources. SCVHHS fiscal staff had formulated the FY 2009-10 budget based on the use of reserves that did not sufficiently exist on a cash basis to fund the expenditures. If staff were not overburdened with meetings from morning to night on a daily basis, and if there were sufficient staff to share the workload, Finance Division managers would have identified this cash flow issue when the budget was formulated.

- **December 2009: Lack of Work Papers Supporting Budget Figures**

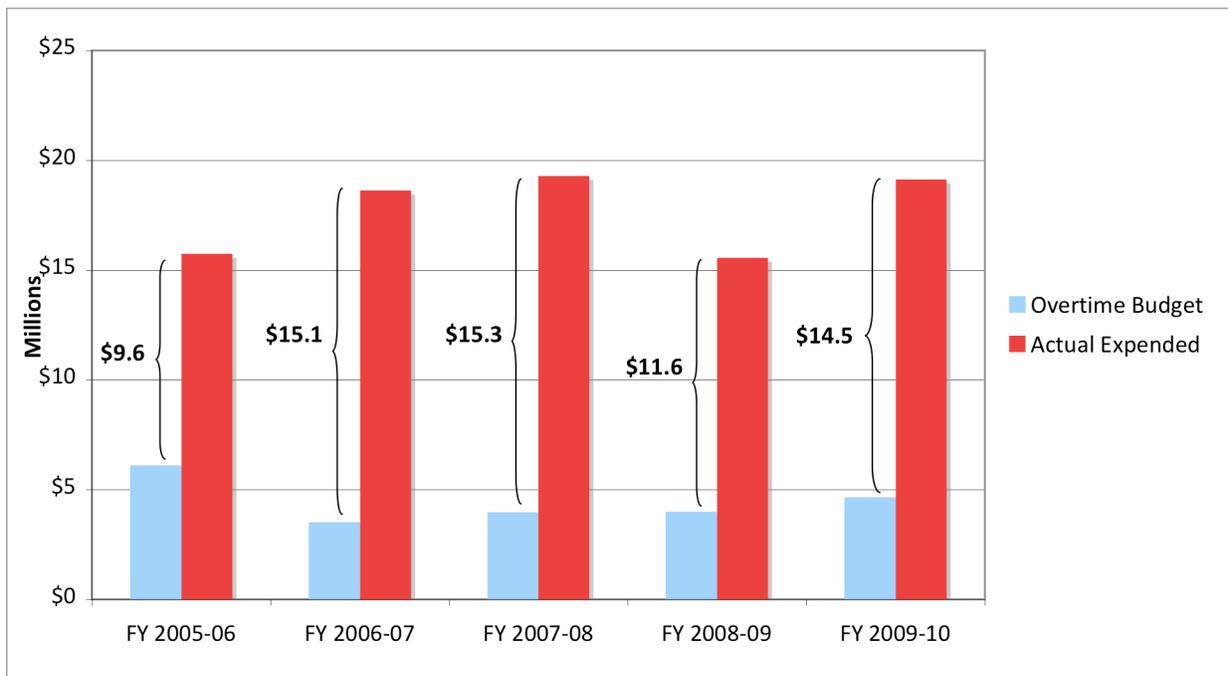
Due to staffing limitations in the SCVHHS Budget Office (CC 6872), it has been centrally developing the annual budget using a spreadsheet and inflation factors to project future fiscal year costs. At the direction of the Board of Supervisors, audit staff reviewed the SCVMC FY 2009-10 budget methodology and work papers and issued a report on December 1, 2009. In that report, SCVHHS fiscal management reported that it did not have sufficient staff to annually zero base (develop the budget requirements based on a new analysis for the coming fiscal year) the budget for each cost center. As a result, with a few exceptions, aside from the referenced department-wide spreadsheet, there were no work papers supporting the FY 2009-10 \$306 million Object Two budget.

- **July 2010: Inability to Manage Overtime Budget**

During the past five fiscal years, SCVMC has been unable to manage its overtime budget despite declining census and patient visits. Budgeted and actual overtime levels are shown in the chart below. SCVHHS reported that one of the factors that makes control of overtime difficult is the 1,040-hour limitation for the use of extra-help staff, which is often replaced by overtime when extra-help is not available.

Chart 10.1

**Santa Clara Valley Medical Center
Overtime Budget and Actual Expenditures
FY 2005-06 to FY 2009-10**



Source: County of Santa Clara, SAP Accounting System

The inability to control overtime costs, even though actual patient census has not achieved budgeted levels, and has declined during the past three fiscal years, is another indication that management of the budget has not been effective. In FY 2007-08, the inpatient census was 2,952 days below budget, while outpatient visits were slightly (1.0 percent) above budget, yet SCVMC overtime expenditures exceeded budget by \$15.3 million, or nearly five times the \$4.0 million budget. In FY 2008-09, the inpatient census declined even further to 12,982 days (9.7 percent) below budget while outpatient visits again exceeded budget by 2.4 percent, but SCVMC

overtime expenditures remained high at \$15.6 million, or \$11.6 million over budget. SCVHHS reported that some of the overtime utilized in recent years was to staff the Emergency Department, which experienced a significant increase in visits in recent years. However, these visits are included in the modest 1.0 percent and 2.4 percent actual outpatient visits in excess of budget in FY 2007-08 and FY 2008-09.

In FY 2009-10, the inpatient census continued to decline to only 116,748 patient days, or 12.4 percent below budget, outpatient visits were 48,260 visits (5.5 percent) below budget, and both SCVMC overtime expenditures and actual physician staffing defied the significant reduction in workload, with both substantially exceeding budget. Overtime increased by \$3.6 million, to \$19.1 million, or \$14.5 million over budget, and actual physician staffing averaged more than 340 FTEs, or 26 positions in excess of budget, despite the huge reduction in workload. During the first half of FY 2010-11, inpatient days are again below budget by about 1,800 days, or 1.5 percent on an annual basis, while annualized outpatient visits have plummeted to about 139,000 visits below the budgeted level of 950,685 patient visits. However, overtime expenditures are still projected to total about \$17.3 million, and the physician FTE count continues to exceed budget by approximately 14.4 full-time equivalent positions, excluding the physician FTEs related to several million of physician costs incurred on a contractual basis.

- **July 2010: Understatement of Budgets Due to Inadequate Staff**

The FY 2009-10 budget for outside medical services was grossly understated. These costs were budgeted at \$30.3 million, but actual expenditures during the fiscal year were running significantly in excess of the budgeted amount. However, neither Santa Clara Valley Medical Center nor Valley Health Plan had available budget staff or management reports to track the volume, cost and reasons why the use of outside medical services were escalating so rapidly. Neither cost center staff nor SCVHHS budget staff had a sufficient knowledge and understanding of these costs to be able to accurately explain the reasons for the large discrepancy. At the close of the fiscal year, actual expenditures amounted to \$39.4 million, or \$9.1 million (30 percent) in excess of the authorized budget.

- **December 2010: Status Reports Not Received by Cost Center Managers**

The same expenditure account for outside medical services (Account 5259180) was reduced by \$12.6 million in the FY 2010-11 budget, from \$39.4 million actually expended in FY 2009-10 to \$26.8 million, as a part of the budget reduction measures recommended by SCVMC to meet its budget reduction target. However, since the SCVMC budget approach

has been primarily from the top-down, most cost center managers not only had limited involvement in the budget process, they also had limited commitment to ensuring that the budget estimates are achieved during the fiscal year. Although three cost center managers were identified as the managers who were overseeing this large account to ensure the budgeted savings of \$12.6 million would be achieved, based on interviews with all three managers, none were receiving any type of special FY 2010-11 monthly reports on the status of the account, or why these costs had escalated in the prior fiscal year. The primary information that was available to them was the monthly hospital accounting report of total actual expenditures against that account, but without any detail or analysis. Further, the primary reasons for incurring outside medical provider costs were reported to be due to either obtaining medical services not provided by SCVMC, or the unavailability of services at SCVMC as a result of a backlog of scheduled patient visits in all of its clinics. However, none of the three managers knew the extent of either cause that would then allow SCVMC to implement operational changes to reduce these costs. As of November 30, 2010, actual expenditures amounted to \$20.9 million.

Based on the foregoing, it is clear that staffing in the SCVHHS Finance Division, especially the Budget Office, needs to be strengthened. However, given the current financial condition of the County General Fund and the SCVMC Enterprise Fund, staffing augmentations should be made on a cost neutral basis by deleting vacant funded codes elsewhere in the organization. As of January 10, 2011, SCVMC had 445 vacant funded positions. It appears that three to five positions are needed to perform budget, financial analysis and compilation and reporting of management information. Based on the independent review and assessment of these issues by SCVHHS fiscal management, a specific proposal should be developed and submitted as part of the FY 2011-12 Recommended Budget, including a description of each position and the duties and responsibilities it would fulfill.

CONCLUSION

The SCVMC Enterprise Fund budget accounts for approximately one-third of total County expenditures of the General Fund and the Enterprise Fund combined. However, weaknesses in SCVHHS budget policies and procedures, and inadequate SCVHHS fiscal staff has compromised the thoroughness and accuracy of the SCVMC budget and impaired its ability to monitor and manage expenditures in a timely and proactive manner. As a result, the General Fund has been adversely affected and is exposed to unnecessary financial risk.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 10.1 Revise its budget methodology to fully integrate cost center managers into the process, and adopt comprehensive written budget policies and procedures documenting the specific duties and responsibilities of budget office staff, cost center managers and other staff with budget responsibilities. The development and implementation of comprehensive written policies and procedures should also include desk manuals for the Budget Director and other key Budget Office positions. (Priority 1)
- 10.2 Devise a system of budget accountability and performance incentives directly related to management and oversight of cost center budgets by cost center managers, and submit the proposed budget management system to the County Executive and Board of Supervisors for approval. (Priority 1)
- 10.3 Develop a proposed staffing reallocation as described in this section and move funding for vacant funded positions from elsewhere in the organization to the Finance Division to strengthen its budget office and financial analysis and reporting capabilities. The specific proposal should be submitted as part of the FY 2011-12 Recommended Budget. (Priority 2)

SAVINGS, BENEFITS AND COSTS

The implementation of these recommendations would revise SCVHHS budget development, monitoring and management procedures and enhance staffing in the SCVHHS Finance Division, particularly the Budget Office. These changes should produce more timely and aggressive budget management, a more in-depth and broad knowledge of budget details by managers throughout the organization, and more cost effective operations. Staffing augmentations should be made on a cost neutral basis by deleting vacant funded codes elsewhere in the organization.

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Section 11. Cell Phone Plans and Policies

Background

- The Information Services Department in the Santa Clara Valley Health and Hospital System (SCVHHS) spent over \$80,000 on cell phones and data cards in FY 2009-2010, and is expected to spend over \$90,000 in FY 2010-11.

Problem

- Review of a full month of cell phone invoices found that more than 50 percent of cell phone minutes purchased were not used, and that some staff were using a phone plan other than the lowest cost plan available. No policies exist within SCVHHS to determine which cell plans staff ought to be given for calling, data use or texting. There are also no policies to inform staff about key details of their new phone plans, such as the number of minutes available. Nor are there established protocols to recover issued cell phones from staff who leave the County.

Adverse Effect

- As a result of these problems, SCVHHS is paying more than necessary. Phones may be issued to staff without demonstrating a significant need, and the lack of a phone-return protocol exposes the County to risk of theft. In one instance, the County paid \$1,100 in phone charges over a two-year period for the lost cell phone of an SCVHHS staff member who had retired.

Recommendations

- SCVHHS would save more than \$40,000 annually by switching Information Services staff to more appropriate and less expensive calling and data plans and cancelling some data plans. About \$340,000 in savings would be achieved by extending this to the rest of the Agency, assuming the pattern of cell phone use in Information Services is similar Agency-wide. Finally, strengthening cell phone policies would assure that only staff who have a County business need for phones receive them, and recovering cell phones when staff leave County service would prevent costs related to unauthorized usage.

Cell Phone Plans

In January 2010, the Information Services Department in the Santa Clara Valley Health and Hospital System (SCVHHS) took over the management of cell phones from the Facilities and Fleet Department. The Information Services Department already had the responsibility for connecting staff phones to the SCVHHS network and assumed responsibility for administering requests by cost center managers to establish new cell phones in January 2010. As a result, the Department currently oversees almost 890 cell phones and wireless aircards, which are distributed to staff throughout SCVHHS. Of these, the Department assigns 113 cell phones to its own staff of 144 employees. A sample evaluation of cell phone usage, cell phone plans and control over cell phone assets for these 113 phones was conducted as part of this audit.

The County Procurement Department has contracts with three carriers, AT&T, Sprint Nextel and Verizon, via the State of California. The State, as part of the Western States Contract Alliance, has negotiated deals with these carriers that allow counties and other local governments to piggyback on the State's contracts to take advantage of low pricing. By entering into these Alliance-negotiated contracts, the County receives discounts of 18 percent to 25 percent on plans, plus further discounts on phones.

In FY 2009-10, the Information Services Department used only three carriers and paid a total of \$80,179 for wireless cell phone charges, or about 15 percent of the total amount paid, estimated at \$525,000, by SCVHHS.¹ By carrier, the Department paid \$27,525 to AT&T, \$45,370 to Sprint Nextel and \$7,284 to Verizon. For the first four months of FY 2010-11, the Department spent \$30,401 on cell phones. Based on these figures, the projected cost of cell phones for the Department in FY 2010-11 is estimated at \$91,204, which is a 14 percent increase over FY 2009-10. In comparison, SCVHHS will spend a projected \$620,000 on cell phones in FY 2010-11, or 18 percent more than in FY 2009-10.

To examine cell phone costs and usage patterns, audit staff analyzed data on the August-September 2010 invoices from AT&T, Sprint Nextel and Verizon for cell phones issued to the Information Services Department.

Cost Components

The three cell phone carriers invoice a number of charges on cell phone accounts every month. These include:

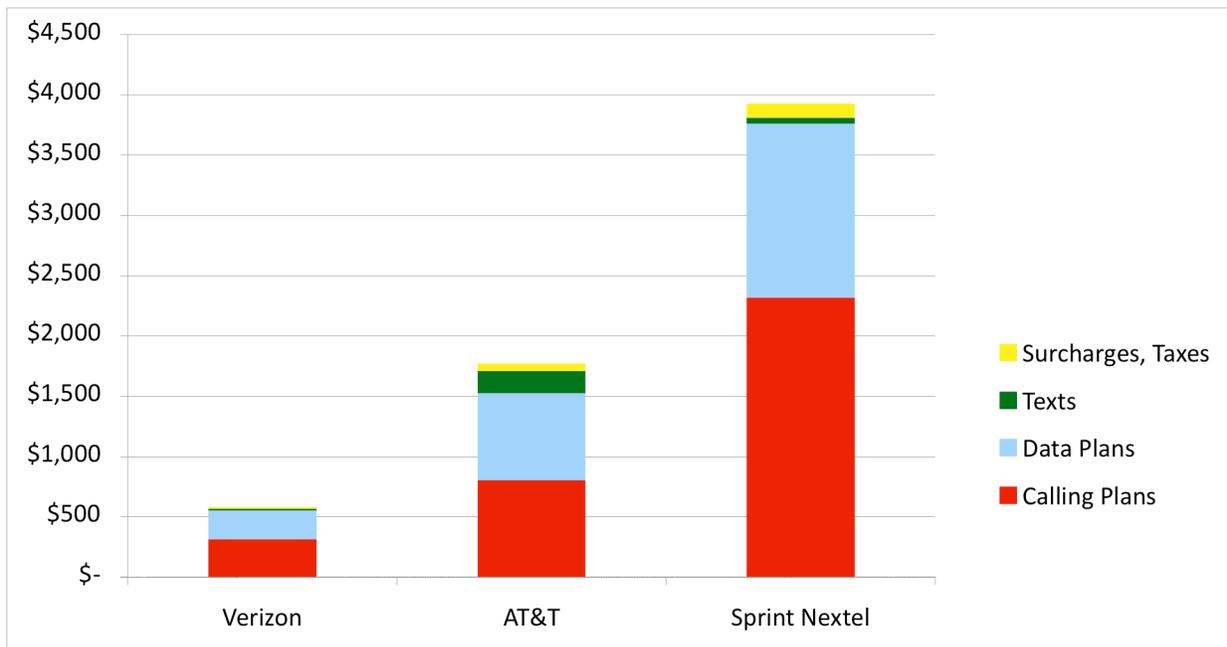
- **Monthly calling plans**, which are based on the number of calling minutes, with larger charges for more minutes;
- **Data plans**, which pay for the ability to download data (usually an unlimited amount) on web-enabled smartphones;
- **Text messages**, which can be billed via a separate plan (e.g., 200 texts for \$5) or per text (e.g., 20 cents per text);
- **Carrier surcharges**, which amount to approximately 1 percent to 4 percent of the overall account charges;
- **Government taxes**, which amount to 0.5 percent to 2 percent of the overall account charges;
- **Directory assistance**, which costs about \$1.99 per call;
- **Call forwarding**; and
- **Address books**.

¹ These costs represent an estimate of the total amount in cell phone bills paid, not accrued.

As shown in Chart 11.1, calling plans comprised the largest component of cell phone costs on the August-September 2010 invoices, followed by data plans. The chart does not show the cost of access cards, which are used by 15 staff in the Information Services Department. These cards connect laptops wirelessly via the cell phone network. While carriers bill the costs of access cards with cell phone charges, these costs were not examined in detail.

Chart 11.1

**Components of Cell Phone Costs by Carrier
SCVHHS Information Services Department
August-September 2010**



Source: SCVHHS Information Services Department Invoices

Calling and Data Plans

For calling plans, most cell phone carriers provide a limited number of daytime minutes, and an unlimited number of minutes for nighttime calls, beginning at 7 or 9 p.m., or for calls between cell phones in the same network. The various calling plans cost between \$19.50 and \$99.99, depending on the number of daytime minutes purchased. If a staff member uses more than the contracted amount of daytime minutes agreed to in any of the plans, the usage is billed on top of the monthly charge. Based on our review of cell phone calling plans, only \$29.40 in overage costs was detected for this period. This represents a small fraction of overall costs.

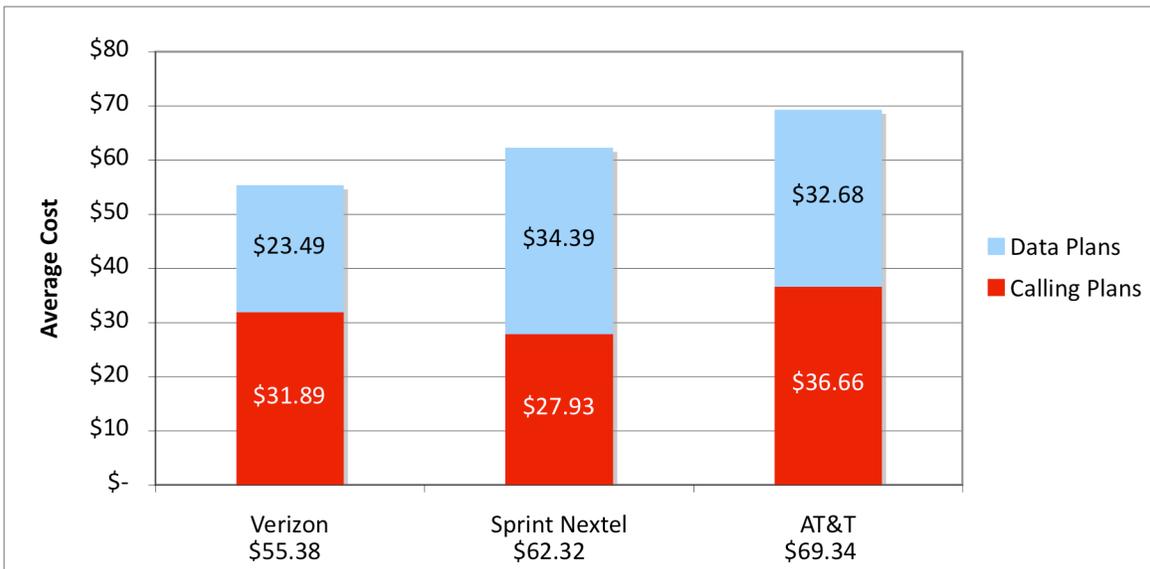
In addition, nearly all staff with AT&T and Verizon cell phones had both calling and data plans. For Sprint Nextel, only about half the staff (42 out of 81) had both calling

and data plans. Data plans cost between \$24.99 and \$39.99, and most plans provide unlimited data downloads.

Chart 11.2 illustrates the average monthly cost of Information Services Department cell phones by carrier, based on the August-September 2010 invoices. For calling plans, Sprint Nextel is the least expensive and 24 percent less expensive than AT&T. For data plans, Verizon is the least expensive and 32 percent less expensive than Sprint Nextel. Thus, the AT&T's total average cost of both calling plans and data plans is highest at \$69.34, followed by Sprint Nextel at \$62.32, and Verizon at \$55.38.

Chart 11.2

**Average Monthly Cost of Calling and Data Plans by Carrier
SCVHHS Information Services Department
August-September 2010**



Source: SCVHHS Information Services Department Invoices

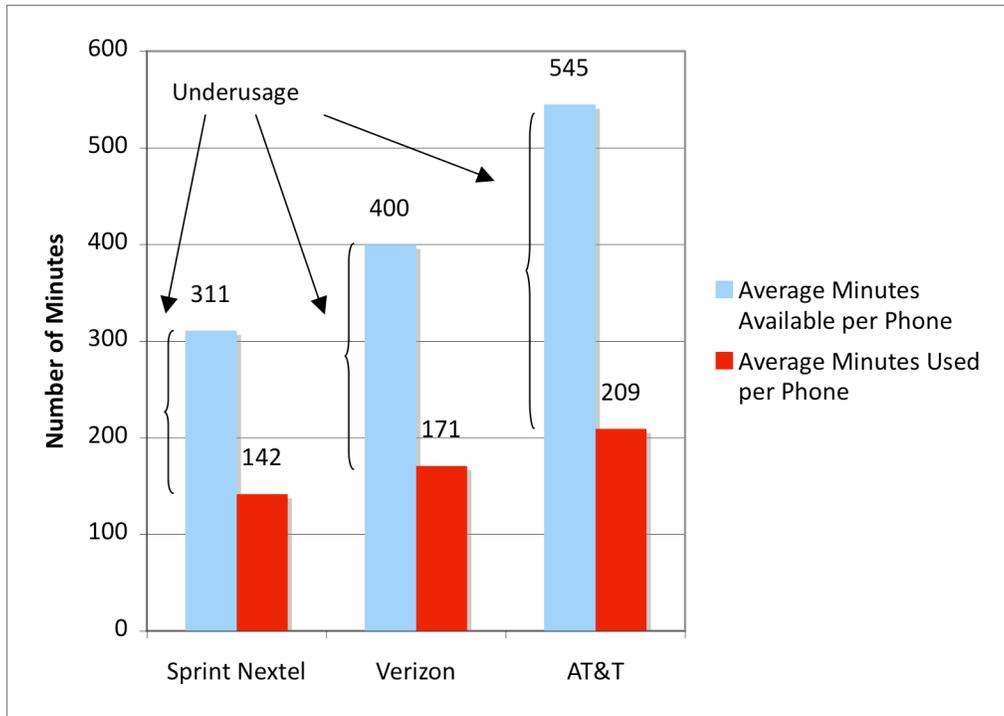
Calling Plan Usage

Chart 11.3 illustrates the average number of minutes available and minutes used per phone by carrier. This chart reveals an underlying pattern of under-usage, which is the difference between minutes available and minutes used across phones. Overall, more than half of purchased minutes are not used. For Sprint Nextel, unused minutes as a percentage of available minutes was 54 percent. For Verizon, this unused percentage was 57 percent, and for AT&T, it was 62 percent. Since the Information Services Department purchases a large number of minutes that are never used, it pays a higher per minute cost for actual usage. Based on the cost of these plans and actual usage, the Department spends approximately 20 cents per minute with Sprint Nextel, 19 cents per minute with Verizon and 18 cents per minute with AT&T, or twice as much per minute

as it would pay if all available minutes were used. Therefore, buying calling plans where the minutes available more closely match the minutes used would reduce costs.

Chart 11.3

**Average Number of Minutes Available and Used by Carrier
SCVHHS Information Services Department
August-September 2010**



Source: SCVHHS Information Services Department Invoices

Audit staff more closely examined the usage of calling plans with 900 minutes or more. Most of these high-minute plans were through Sprint Nextel, which had 14 1,000-minute plans. The average usage of the 1,000-minute plans was 144 minutes, which was only two minutes more than the average usage for all Sprint Nextel users. The highest usage was for almost 500 minutes, or less than half the minutes purchased. Among the four people with 900- or unlimited-minute plans through AT&T, the average usage was 181 minutes, or 28 minutes less than the overall average for that carrier. Only one person on a high-minute AT&T plan used half their purchased minutes.

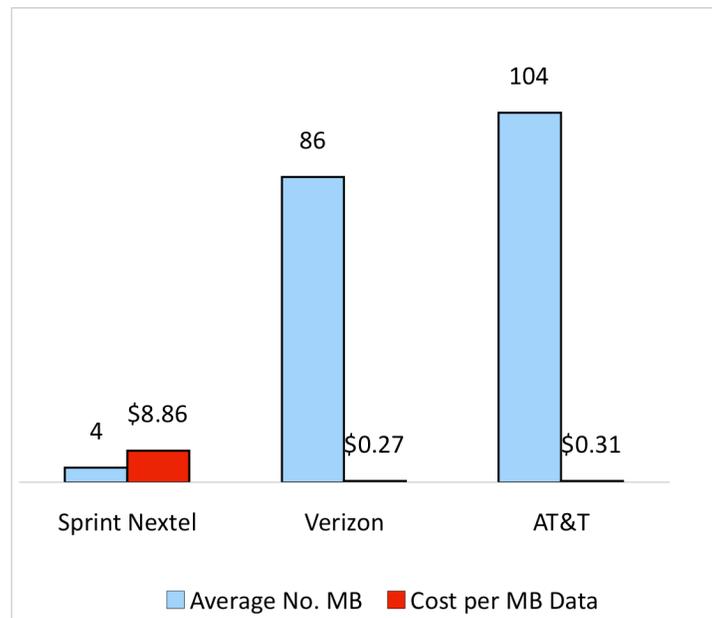
Finally, the sharing of “pooled” minutes was examined as part of Sprint Nextel plans. On the August-September 2010 invoices, the Information Services Department bought 25,200 daytime minutes with the higher cost plans. These minutes are shared with staff on the Add-On plan, which is the least expensive plan at \$19.50. The high-cost plan

holders used less than one-third of the total minutes available, and the Add-On plan holders used only one-third, leaving 54 percent of all minutes unused.

Data Plan Usage

Usage analysis was also performed on data plans, which comprise the second largest portion of cell phone costs. Audit staff reviewed monthly invoices to obtain the amount of data downloaded for every account-holder, and then compared usage. Our analysis shows limited use of purchased data, which is typically unlimited. As shown in Chart 11.5, an average of only four megabytes of data was downloaded by Sprint Nextel users, versus an average of 86 megabytes among Verizon users and 104 megabytes among AT&T users. Because data plan usage through Sprint Nextel is low, the cost to download each megabyte is higher than other plans. For the period examined, the cost of downloading one megabyte of data through Sprint Nextel was \$8.86, which is 30 times higher than the costs through Verizon and AT&T at 27 cents and 31 cents, respectively.

Chart 11.5
Average Size and Cost of Data Download by Carrier
SCVHHS Information Services Department
August-September 2010



Source: SCVHHS Information Services Department Invoices

Reconfiguring Plans

Because cell phone carriers charge for a “contracted” number of minutes per month, it is not possible to pay only for minutes used. However, SCVHHS could save

considerable money by selecting calling plans that more closely reflect actual usage. For example, the Information Services Department could place more staff on lower minute plans, resulting in savings of at least \$1,800 per month -- \$1,712 for Sprint Nextel and \$88 for AT&T. This figure represents annual savings of \$21,597. This change dramatically reduces the average Sprint Nextel calling plan from \$27.93 to \$7.12 per month by adjusting the mix of plans to maximize the minutes used. This would result in fewer 400-minute plans and more 1000-minute and Add-on plans. Given the current plan used by staff with Verizon - \$31.99 plan with 450 minutes - there would be no changes and no savings, unless there was a cheaper calling plan available that would more closely match the amount of minutes being used by staff.

The Information Services Department could also cancel two unused AT&T data plans and all Sprint Nextel data plans, which were used less and cost more than Verizon data plans, saving \$1,551 per month, or \$18,607 per year. Combining both measures to reduce data plans and reduce average calling plan costs, the Department would save a grand total of \$40,204 annually. Consequently, SCVHHS should select cell phone plans for staff based on actual usage patterns for both calling and data plans.

Although this detailed invoice analysis included only phones used within the Information Services Department, we believe it is likely that its conclusions could be extended to cell phone use within SCVHHS generally. The foregoing analysis within Information Services resulted in savings of \$1,551 per month for the 64 phones with data planes, with most of the savings coming by eliminating Spring Nextel plans, which were rarely used. Extending these savings to all SCVHHS phones would generate \$13,205 savings per month, or \$158,460 per year. Most of the savings would be from eliminating all 359 Sprint-Nextel data plans.

Telephone savings in the analysis was \$1,800 per month, mostly from switching Sprint-Nextel phones to plans providing for purchased minutes more in line with actual use. Assuming the recommendations for Information Services were extended throughout SCVHHS, total savings would be \$15,124 per month, or \$181,489 per year. Total savings across SCVHHS by these changes is thus estimated at \$339,949 annually, \$158,460 from data plans, and \$181,489 from changes in calling plans. These savings assume that the cell phone usage patterns identified for the Information Services Department extend throughout the Agency.

Although the Information Services Department assumed responsibility for ordering cell phones in January 2010, a staff person dedicated to managing and working with cell phone providers was not hired until May 2010. At the time of this audit, the new hire was fully engaged and working with cell phone providers. The Department reports that based on the January 2011 billing, calling plan charges have declined by more than \$6,000 per month, for an annual savings of \$72,000. The cell phone ordering form has been modified to limit phone choices to two phone models for each provider, and department managers must justify phones not in the order form. There has also been standardization to one data plan for each vendor. The Department expects to see the

effect of these changes in the February 2011 invoice and estimates that data plan standardization will save another \$12,000 per year.

Business Use of Employee-Owned Phones

Existing cell phone policies state that staff can use personal phones for County business if authorized by the department head, and some Information Services staff have been authorized to do so. Because all staff have not been so authorized, some staff carry two cell phones – a personal cell phone and County cell phone. An alternative method of generating savings would be to reimburse staff for the business use of their personal phones when their business-related cell phone needs are limited. SCVHHS should consider costing this reimbursement method.

Cell Phone Policies

The County currently has three policies related to the use of cell phones assigned to SCVHHS staff:

1. The County's Information Technology Security Policies (Attachment 11.1)
2. A memo from the Controller-Treasurer on the Personal Use of County-Owned Cellular Telephones and Business Use of Employee-Owned Cellular Telephones (Attachment 11.2)
3. SCVHHS Policy #221.40 on the Personal Use of SCVHHS-Owned Cellular Telephones and Business Use of Employee-Owned Cellular Telephones (Attachment 11.3)

While the County's Information Technology Security Policies require that County-owned cell phones be used for work-related purposes only, departmental policies, including those issued by the Controller-Treasurer and SCVHHS, allow for the personal use and reimbursement of County-owned cell phones. The Controller-Treasurer Department is currently reviewing its policy, soliciting input from other departments, and drafting a revision. As part of this process, inconsistencies between the three policies should be addressed. The policies should also be strengthened in the areas described below.

Issuance of Cell Phones

Neither the County nor SCVHHS has a written policy on which staff may be issued a County cell phone for the purpose of their work. This is significant because fully one-third of all County-issued cell phones have call usage of less than 20 minutes per month. This represents a very small portion of staff working hours, and does not warrant the issuance of a County-issued cell phone. The cost of these very low usage phones comprises over one-third of the total calling costs paid to carriers, and canceling these phones would generate additional savings because of concomitant data plans and charges.

There is a written request form for SCVHHS staff to fill out and for cost center managers to sign that authorizes the issuance of a cell phone (Attachment 11.4). However, the request does not require any justification as to why the staff person needs a cell phone or any information on the type of calling plan and add-on services needed as part of their job. County policy should include guidance to managers as to when staff should be provided a County-paid phone. These assessment criteria should include whether staff are frequently away from their office, and are required to be available by phone at all times, or have other needs for critical communication.

Add-on Services

None of the current cell phone policies address in what circumstances add-on services are justified to conduct County business. Add-on services, when combined, can cost more than monthly calling plan charges. These services include data plans, text messages, voicemail, directory assistance, call forwarding, address books and applications. Whether or not these add-ons are required for County use has implications for the type of phone that is purchased and calling plan that is chosen. When a calling plan and a data plan are required, phone options are limited and prices rise. As a result, the cell phone policies should also provide criteria on when add-on services are justified.

Guidance to Employees

Upon receipt of County-issued cell phones, employees are not given any written information about:

- Their cell phone calling plan and how many minutes they have;
- Whether a data plan is included, and how much data can be used; and
- The cost of text messaging, and other add-ons.

To prevent overuse and misuse of cell phones, employees should be given written information on their cell phone plans and features, as well as copies of all County policies that govern cell phone use. Since November 2010, each SCVHHS employee has been given a copy of County and SCVHHS cell phone policies and a copy of their plan, so that they understand the County processes. Each cell phone recipient also signs an acknowledgement form.

Personal Use of County-Owned Phones

SCVHHS requires staff to reimburse the County for personal calls “when total usage exceeds the minutes allowed with the phone service provider”. As previously discussed, the average number of minutes used by staff comprise less than half the amount of minutes paid under calling plans. Staff would comply with SCVHHS policy if they used all minutes in plans and did not exceed them. However, this would not be in the spirit of the policy that personal use of County-owned cell phones be limited. The fact that

staff have vastly different calling plans and access to pooled minutes could mask the true volume of personal calls and render the current policy for calculating personal minutes out of date. Similar to reimbursements for business calls on employee-owned phones, cell phone policies should require that reimbursements for personal calls on County-owned phones that exceed incidental or de minimis use be based on a methodology approved by the Controller-Treasurer that fully reimburses the County.

In the case of SCVHHS Information Services, no staff made any reimbursement for personal calls on County phones for the three invoices covering August through October 2010. SCVHHS practice is that payment need only be made when charges are \$2 or more over plan. The Information Services Department has established a new review process whereby group managers communicate overages to their respective employees and request reimbursement through the SCVMC Cashier's Office. However, unlike the case of business use of employee-owned phones, there is no worksheet to figure out the value of reimbursement. The development of policies for reimbursement of personal calls made on County-issued phones should include worksheets or other methods to report such use for reimbursement purposes.

Monitoring and Recovering Cell Phones

The County's Information Technology Security Policies require each department to ensure that all County-owned cell phones "are properly inventoried, configured, tracked, and disposed of according to County policies." While the Information Services Department took over the responsibility for issuing cell phones to all SCVHHS staff, it has not yet established a system for monitoring cell phone usage. Such a system should be established, and it should involve cost center managers. The Department already has access to all carrier invoices online and has the capacity to track costs, change plans and examine usage.

Furthermore, formal protocols for turning in cell phones that are no longer in use have not been established. Audit staff found that SCVHHS continued to pay the monthly cell phone bill of a staff person who retired in 2008. Not only was the retired staff person's cell service not terminated, but the phone was being used and could not be found. Accounts Payable discovered the situation in 2010 when they asked for managerial approval to pay the monthly bill that had exceeded the plan amount (through 411 calls billed at \$1.25 each). With the plan costing \$45.99 per month, SCVHHS lost over \$1,100 over a two-year period. SCVHHS should establish protocols to ensure that all departments are responsible for recovering cell phones when staff leave County service to prevent costs related to unauthorized usage.

CONCLUSION

County-issued cell phones are underused, and questions arise on whom ought to be issued a County phone. There are many ways to save money on cell phones, from reconfiguring calling and data plans, to fully implementing the current policy on reimbursement for business use of personal cell phones. As the Information Services

Department is now responsible for connecting and maintaining cell phones, it needs to establish a system of monitoring cell phone costs. With the Department's cell phone costs projected to increase by 14 percent in FY 2010-11, improvements would make an impact on these costs, and applying changes to all of SCVHHS would generate several hundred thousand dollars of additional savings.

RECOMMENDATIONS

The Santa Clara Valley Health and Hospital System should:

- 11.1 Select cell phone plans for staff based on actual usage patterns for both calling and data plans. (Priority 1)
- 11.2 Consider costing the method of reimbursing staff for the business use of their personal phones when their business-related cell phone needs are limited. (Priority 2)
- 11.3 Establish a system for monitoring cell phone usage that involves cost center managers. (Priority 2)
- 11.4 Establish protocols to ensure that cell phones are recovered when staff leave County service to prevent costs related to unauthorized usage. (Priority 3)

The Controller-Treasurer Department should:

- 11.5 Work with departments to correct inconsistencies in existing cell phone policies and strengthen these policies as follows:
 - a. Draft specific criteria that qualify staff for a County-owned cell phone, including whether staff are frequently away from their office, and are required to be available by phone at all times, or have other needs for critical communication;
 - b. Provide criteria to justify add-on services, such as data plans, text messages, voicemail, directory assistance, call forwarding, address books and applications;
 - c. Require that employees be given written information on their cell phone plans and features, as well as copies of all policies that govern cell phone use; and
 - d. Require that reimbursements for personal calls on County-owned phones that exceed incidental or de minimis use be based on a methodology approved by the Controller-Treasurer that fully reimburses the County. (Priority 2)

SAVINGS, BENEFITS AND COSTS

SCVHHS would save more than \$40,000 annually by switching Information Services staff to more appropriate and less expensive calling and data plans and cancelling some data plans. About \$340,000 in savings would be achieved by extending this to the rest of the Agency, assuming cell phone usage patterns are similar to those in Information Services. SCVHHS would also save by requiring staff with low business usage to use their personal phones and be reimbursed for County business. Finally, strengthening cell phone policies would assure that only staff who have a County business need for phones receive them, and recovering cell phones when staff leave County service would prevent costs related to unauthorized usage.

5.0 INTERNET USE

5.1 PURPOSE

The purpose of this policy is to define the basic principles for both individual User and Department business use of the County-owned Internet access infrastructure. The policies are intended to ensure that Users know their rights and responsibilities when using the Internet. It is also intended to ensure appropriate, cost-effective, and secure use of County-provided Internet access capabilities by County organizations.

The County's official "Internet Use" policy, approved by the Board of Supervisors, is provided as Attachment B of this document; in the event of conflict, the official Board-approved policy takes precedence over any of the policies specified below.

5.2 DEFINITIONS

Discussion Group: An Internet service that allows users to "post" messages, opinions, or other information to a general "bulletin board," where the messages can then be viewed by other members of the group. Typically postings to a discussion group or bulletin board are archived for some period of time and can be retrieved at a later date.

Instant Messaging (IM): A popular type of application offered by many Internet service providers that allows "real-time" communication and file transfers between two or more individuals using the browser interface. The distinguishing feature of IM is that the architecture employs a centralized server managed by the Internet service provider, and this server controls communication between the participants.

Peer-to-Peer Connection (P2P): Also known as *file sharing*, P2P connections are a popular Internet application used for sharing and transferring messages and files. The distinction between IM and P2P services is that P2P does not employ a centralized server, and participants are directly connected to one another (thus "peer-to-peer"). Each "peer" in the relationship may have one or more simultaneous connections to other devices.

5.3 POLICIES

- 5.3.1 No Department shall implement its own connectivity to the Internet without prior written approval from the County CIO or designee.
- 5.3.2 Transmitting any electronic communication over the Internet that contains Confidential or Restricted information is prohibited, except under the conditions specified in the policy regarding Data Classification (Section 15.0).

- 5.3.3 No County employee, contractor, or consultant shall use the County's Internet infrastructure for inappropriate purposes, such as (but not limited to) the following:
- Personal profit including commercial solicitation or conducting or pursuing their own business interests or those of another organization.
 - Unlawful or illegal activities, including downloading licensed material without authorization or downloading copyrighted material without the publisher's permission.
 - Accessing, creating, transmitting, printing, downloading or soliciting material that is or may be construed to be harassing or demeaning toward any individual or group for any reason, including on the basis of sex, age, race, color, national origin, creed, disability, political beliefs, organizational affiliation, or sexual orientation.
 - Accessing, creating, transmitting, printing, downloading or soliciting sexually oriented messages or images.
 - Propagating or downloading viruses or other contaminants.
- 5.3.4 All Department servers that are accessible from the Internet shall be protected by a security infrastructure that has been approved by the County CIO or designee.
- 5.3.5 County servers accessible from the Internet shall be configured and maintained so as to minimize security vulnerabilities. This includes proper patching and configuration, the installation and use of anti-virus software, and the installation and use of host-based intrusion detection systems (IDS).
- 5.3.6 Users are prohibited from utilizing, participating in, or configuring Internet-based Instant Messaging (IM) services.
- 5.3.7 If needed to support legitimate business processes, a Department may participate in an internal, County-provided instant messaging service, if and when such a service is implemented, or a Department may implement such a service designed for use within its own local environment.
- 5.3.8 An IM service implemented by a Department shall not be used to communicate with IM services that are external to the County unless implemented via a security infrastructure that has been approved by the County CIO or designee.
- 5.3.9 Users are prohibited from utilizing, participating in, or configuring Internet-based Peer-to-Peer or file sharing services.
- 5.3.10 Users are prohibited from participating in Internet Discussion Groups unless there is a legitimate business need to do so, and explicit permission

to participate in such group(s) has been given, in writing, by Department management.

5.4 RESPONSIBILITIES

- 5.4.1 Each Department is responsible for addressing all relevant security concerns when evaluating use of the Internet to conduct Department business with other public entities, citizens, and businesses.
- 5.4.2 Each Department is responsible for ensuring that all employees, contractors, consultants, and vendors within its scope of authority utilize the County's Internet infrastructure appropriately.

5.5 LIMITATIONS

- 5.5.1 Access to the Internet is provided as a business tool. However, reasonable and incidental use of the Internet for personal purposes is acceptable, subject to specific exceptions by individual Departments, as long as this usage does not interfere with the performance of work duties or the operation of County information systems and/or networks.
- 5.5.2 Use of the Internet via the County's infrastructure must withstand public scrutiny. The California Public Records Act (CPRA), Government Code Section 6250, et seq., requires the County to make all discloseable public records available for inspection and to provide copies upon request. A public record is any writing, including electronic documents, relating to the conduct of the people's business. The CPRA stipulations apply to information processed, sent and stored on the Internet.
- 5.5.3 Users should have no expectation of privacy in their usage of the Internet. Any messages, files, or other materials transmitted over the Internet can be monitored, stored, or disclosed to third parties. Additionally, records of Internet use may be requested during litigation discovery.
- 5.5.4 Users should understand that the County monitors and logs all access to sites on the Internet that are made from County-owned IT resources. The information that is collected can be used to associate Internet activity to an individual workstation.
- 5.5.5 Either the County as a whole, or a Department head, may restrict access to certain Internet web sites that are deemed inappropriate and/or unnecessary for business purposes.
- 5.5.6 An audit authority designated by a Department head or other County authority may be given the responsibility to monitor the Internet usage of an individual User or group of Users. If necessary and appropriate, an individual designated by the County Executive may similarly monitor the Internet usage of an Agency or Department head.

5.5.7 This policy does not supplant legal protections intended to shield confidential, internal County communications from third party requests, such as information exempt from disclosure under the CPRA, shielded by attorney-client privilege, or subject to State and Federal law mandating confidentiality for specific subject matter.

5.6 RELATED IT SECURITY POLICIES

The following policies are related to the IT Security Policy regarding Internet Use:

General Security Policies	-	Section 3.0
Email	-	Section 6.0
Encryption	-	Section 13.0
Data Classification	-	Section 15.0
Application Service Provider	-	Section 16.0

6.0 EMAIL

6.1 PURPOSE

This policy addresses appropriate use of both Internet-provided email systems and the County's Internal Email Systems. This policy is intended to ensure that County Users know their rights and responsibilities in using email systems, and to ensure that these systems are used in a secure, appropriate manner.

The County's official "Email Use" policy, approved by the Board of Supervisors, is provided as Attachment C of this document; in the event of conflict, the official Board-approved policy takes precedence over any of the policies specified below.

6.2 DEFINITIONS

County (Internal) Email System: An email system that has been established for the sole use of County Users, and is maintained, controlled, and managed by County IT staff. Internal County email systems provide messaging services based on User email addresses that are linked to the County domain name structure.

Encryption: The process of scrambling information so that only someone that knows the appropriate key can obtain the original information.

Internet (External) Email System: Any email system or service that is external to the County, and that is provided and supported by an Internet Service Provider or other Internet-based entity for use by the general public, such as *hotmail*. Internet Email Systems are not maintained, controlled or managed by County IT staff, and utilize email addressing that is not related to the County's domain name structure.

Malicious Software: Software that has been designed with the specific intent to damage a computer or network, impede performance, disrupt operation, or destroy, alter, or steal data. Types of malicious software include, but are not limited to, viruses, worms, Trojan Horses, adware/spyware, and software intended to result in denial of service (DoS).

6.3 POLICIES

6.3.1 No employee, contractor or consultant shall use County Internal Email Systems for inappropriate purposes, such as, but not limited to the following:

- Personal profit, including commercial solicitation or conducting or pursuing their own business interests or those of another organization.
- Unlawful or illegal activities.
- Creating or disseminating harassing or demeaning statements toward any individual or group for any reason, including on the basis of sex, age, race, color, national origin, creed, disability, political beliefs, organizational affiliation, or sexual orientation as defined in Section

A25-301 of the Merit System Rules, the County Policy on Sexual Harassment and any other relevant County Ordinances.

- Disseminating hoaxes, chain letters, or advertisements.
- Propagating or downloading viruses or other malicious software.

- 6.3.2 Each User of a County Internal Email System shall have an individual email account that is uniquely linked to that User. General-purpose email accounts, however, may be used for Departmental interaction between the public and County employees; for example, the general email account TaxCollector@co.scl.ca.us can be used to communicate with the general public.
- 6.3.3 Users shall not use a County Internal Email account assigned to another individual to either send or receive messages.
- 6.3.4 Use of Internet (External) Email Systems from County networks and/or desktop devices is prohibited unless there is a compelling business reason for such use.
- 6.3.5 When used, the interface with an Internet (External) Email System must be appropriately configured such that the email messages are inspected for malicious software and other potential sources of disruption or contamination. Chapter 6.0 of the *IT Security Procedures and Standards* document provides details on the approved configuration for utilizing Internet (External) Email Systems.
- 6.3.6 Users shall not configure or use automated forwarding of County email messages to Internet (External) Email Systems unless specifically authorized to do so, in writing, by a designated Department authority. Email messages that are forwarded manually must not contain information that has been classified as Confidential or Restricted.
- 6.3.7 Files or documents sent as attachments to email messages shall be governed by all procedures and standards specified by the County, based on the classification level of the data contained in the file and/or document. These same restrictions shall apply to information embedded within an email message as message text.
- 6.3.8 County-approved language, informing recipients how to handle the message and its contents/attachments, must be included in all email messages.
- 6.3.9 Special features designed to filter out Malicious Software contained in either email messages or email attachments shall be implemented on all County Internal Email Systems.
- 6.3.10 Business-related messages on County Internal Email Systems that are no longer necessary in the ordinary course of business shall be routinely deleted. Additional policies regarding the retention/deletion of email messages can be found in Section 18.0, Electronic Records Retention.

- 6.3.11 Users shall not delete email messages whose subject matter has been identified as relevant to pending or anticipated litigation or other legal processes. Users shall not delete any email message for the sole reason that its content is potentially embarrassing or harmful to the interests of the County or the author.
- 6.3.12 Departments shall formulate a policy on the use of Encryption with email messages that is consistent with other County policies regarding data privacy and confidentiality, and shall disseminate that policy to their User community.
- 6.3.13 Other than those mechanisms specifically authorized by a Department, the use of User-set passwords or other message locking/protection measures (such as Encryption) are prohibited on County Internal Email Systems.
- 6.3.14 Departments shall provide their Users with training on the appropriate use of both Internet (External) and County Internal Email Systems, and on handling email messages and attachments.

6.4 RESPONSIBILITIES

- 6.4.1 Each Department is responsible for ensuring that all employees, contractors, consultants, and vendors within its scope of authority utilize all email systems in an appropriate manner.
- 6.4.2 Departments are responsible for ensuring that all Users have received appropriate training in handling email messages and attachments in order to prevent the spread of email-related viruses and other forms of Malicious Software.
- 6.4.3 Individual Users are responsible for understanding and complying with all County policies, procedures, and standards related to the appropriate use of Internet (External) and County Internal Email Systems.

6.5 LIMITATIONS

- 6.5.1 County-provided email is intended as a business tool. However, reasonable, incidental use of County Internal Email Systems by Users for personal purposes is acceptable, as long as such use does not interfere with normal job functions or with the operation of the County's information systems.
- 6.5.2 Use of the County's Internal Email Systems, as with other County systems, must withstand public scrutiny. The California Public Records Act (CPRA), Government Code Section 6250, et seq., requires the County to make all public records available for inspection and to provide copies upon request. A public record is any writing, including electronic documents, relating to the conduct of the people's business. Any

information sent via email may be subject to disclosure under the CPRA or requested in the process of litigation discovery.

- 6.5.3 County Internal Email System messages are not protected or encrypted by default, and Users should have no expectation of privacy for the content of email messages sent over County networks.
- 6.5.4 Users should be aware that even though an email message has been deleted from their in-box, it may still be possible to retrieve copies of the message.
- 6.5.5 County or Department authorization for an individual to use Encryption or other measures to protect or “lock” email messages shall not constitute consent by the County or Department to maintain any such messages as private.
- 6.5.6 This policy does not supplant the legal protections available to shield confidential, internal County communications from third party requests, such as information exempt from disclosure under the CPRA, shielded by attorney-client privilege, or subject to state and federal law mandating confidentiality for specific subject matter.

6.6 RELATED IT SECURITY POLICIES

The following policies are related to the IT Security Policy regarding Email:

General Security Policies	-	Section 3.0
Internet Use	-	Section 5.0
Encryption	-	Section 13.0
Data Classification	-	Section 15.0
Electronic Records Retention	-	Section 18.0

17.0 WIRELESS COMMUNICATION

17.1 PURPOSE

The purpose of this policy is to define the standards for deployment and use of wireless technology within the County. This policy covers all communication and computer devices that are capable of transmitting data using wireless technology, including but not limited to local and wide area networks, and personal computers, laptops, and other Mobile Devices.

17.2 DEFINITIONS

Mobile Device: Any portable computing device that is capable of receiving, storing, and/or processing data, including but not limited to laptops, Pocket PCs, tablets, PDAs, “smart” phones (including iPhones), and MP3 players (such as iPods). Simple pagers, cell phones capable *only* of making and receiving telephone calls, USB thumb drives, CDs, and floppy disks are not currently included in the definition of Mobile Devices.

17.3 POLICIES

- 17.3.1 Only wireless systems that have been evaluated for security, and granted an exclusive waiver by the County CIO or designee, shall be approved for connectivity to County networks.
- 17.3.2 All access to County networks or computing resources via unapproved, wireless communication technologies is prohibited. This includes wireless systems that may be brought into County facilities by visitors or guests. Employees and other Users of County networks and computer systems are prohibited from connecting and/or activating wireless modems or any other form of wireless access point on workstations, laptops, or other computing devices that are simultaneously connected to any County network, either locally or remotely.
- 17.3.3 All approved wireless systems implemented between or within County facilities shall follow all standards for securing wireless systems as specified in the *IT Security Procedures and Standards* and *IT Security Best Practices*.
- 17.3.4 County data that is transmitted over any wireless network, whether an approved internal County wireless network or an external wireless network, must be protected according to the sensitivity classification of the data. This stipulation applies to County employees as well as to vendors, contractors, and consultants with legitimate and approved access to County data.
- 17.3.5 Each Department shall make a “best effort” to ensure that unauthorized wireless networks, access points, and/or modems are not installed or

configured within its IT environment. Each Department shall cooperate with ISD in order to identify active, unauthorized wireless modems and/or wireless access points. It is highly recommended that such audits be conducted at least twice per year.

17.3.6 Any unauthorized wireless modems and/or access points identified during these audits shall be disabled immediately.

17.4 RESPONSIBILITIES

17.4.1 Each Department is responsible for ensuring that the prohibitions against unapproved wireless network access are followed within its own facilities.

17.5 LIMITATIONS

None.

17.6 RELATED IT SECURITY POLICIES

The following policies are related to the IT Security Policy regarding Wireless Communication:

General Security Policies	-	Section 3.0
Local User Logon and Authentication	-	Section 4.0
Remote Access	-	Section 8.0
Encryption	-	Section 13.0
Data Classification	-	Section 15.0

21.0 MOBILE DEVICES

21.1 PURPOSE

The purpose of this policy is to provide County organizations with requirements for the selection, configuration, and appropriate use and disposal of Mobile Devices. Note that this policy relates ONLY to the Mobile Device itself, and does not deal directly with issues associated with either Remote Access or wireless access, which are covered in separate Policies.

21.2 DEFINITIONS

Backup: The process of copying/duplicating files, databases, and/or system files to avoid loss of data and to facilitate recovery in the event of a system problem or failure.

Business Application: Any software program that has been developed, acquired, or modified specifically to support a unique and identifiable County business function. This includes applications used by multiple Departments, such as CJIC and HaRP, and Department-specific applications such as AIMS (Assessor) and POPS (Pretrial Services).

Malicious Software: Software that has been designed with the specific intent to damage a computer or network, impede performance, disrupt operation, or destroy, alter, or steal data. Types of malicious software include, but are not limited to, viruses, worms, Trojan Horses, adware/spyware, and software intended to result in denial of service (DoS).

Mobile Device: Any portable computing device that is capable of receiving, storing, and/or processing data, including but not limited to laptops, Pocket PCs, tablets, PDAs, “smart” phones (including iPhones), and MP3 players (such as iPods). Simple pagers, cell phones capable *only* of making and receiving telephone calls, USB thumb drives, CDs, and floppy disks are not currently included in the definition of Mobile Devices.

Remote Access: Any access of County IT assets from a Non-County Infrastructure (including employee homes), no matter what technology is used to accomplish such access.

21.3 POLICIES

21.3.1 Unless there is a legitimate business reason for doing otherwise, all Mobile Devices used to access County resources, and/or to process or store County data shall be selected from the list of devices approved for use within the County environment.

- 21.3.2 Users shall utilize County-provided Mobile Devices for work-related purposes only. Users are prohibited from allowing individuals who are not County employees from utilizing the device for purposes unrelated to County business.
- 21.3.3 All Mobile Devices shall be required to successfully authenticate at the designated, approved County network point-of-entry prior to being granted access to any County network, resource, application, or data.
- 21.3.4 Approved methods for preventing the introduction of Malicious Software must be implemented on all Mobile Devices that are used to access County networks, information technology resources, applications, or data.
- 21.3.5 Appropriate controls shall be implemented on all Mobile Devices such that the confidentiality of data on the device is protected.
- 21.3.6 All networking and connectivity features on Mobile Devices that are not required in support of County Business Applications shall be disabled.
- 21.3.7 Appropriate measures shall be taken to ensure that Mobile Devices are protected against loss or theft.
- 21.3.8 Departments shall define and implement a policy and associated procedures for upgrading software, installing patches, and updating anti-virus signatures on all Department-owned Mobile Devices. These procedures must be followed by all Users issued such a device, and the procedures will be enforced by Department management.
- 21.3.9 Data contained on Mobile Devices shall be included in the Department Backup policies and procedures to ensure that the “master” copy of critical data is not maintained on a mobile device.
- 21.3.10 County policies regarding hard drive sanitization and equipment disposal shall be followed for all County-owned Mobile Devices.
- 21.3.11 Use of a personally-owned (User-owned) Mobile Device for County business purposes shall require approval from both the Department IT Manager and the Department/Agency Head, and shall require the User to sign an agreement specifying the conditions for use, configuration, maintenance, and disposal of the device.
- 21.3.12 Departments shall adhere to specified County procedures, as outlined in the *IT Security Incident Response Plan*, following loss or theft of a Mobile Device that is being used, or has been used, for County business purposes.

21.4 RESPONSIBILITIES

21.4.1 Each Department is responsible for ensuring that all Mobile Devices that have been used for County business by its Users are properly inventoried, configured, tracked, and disposed of according to County policies.

21.4.2 Users assigned a County-owned Mobile Device, or permitted to use a personally-owned Mobile Device, must recognize that such use is privilege, and that this privilege can be revoked at any time following misuse of the device and/or violation of County policies.

21.5 LIMITATIONS

None.

21.6 RELATED IT SECURITY POLICIES

The following policies are related to the IT Security Policy regarding Mobile Devices:

- General Security Policies - Section 3.0
- Local User Logon and Authentication - Section 4.0
- Remote Access - Section 8.0
- Physical Security - Section 9.0
- Encryption - Section 13.0
- Wireless Communication - Section 17.0

SANTA CLARA COUNTY INFORMATION TECHNOLOGY USER RESPONSIBILITY STATEMENT INSTRUCTIONS

In May 1995 the Board of Supervisors charged each County organization with the responsibility for ensuring that all County employees had read and signed a statement of responsibility concerning use of the County's networks and information systems. The resulting County-wide User Responsibility Statement is intended as a *minimum* statement of User responsibility, and individual County Agencies and Departments may require Users to read and sign additional statements to meet any special requirements that apply within their own environments.

- The County User Responsibility Statement must be signed by anyone who might reasonably require access to a County network and/or information system. This includes all County employees, as well as any other individual who needs authorized access for County business purposes. All Users who are allowed to access County resources remotely must also sign an additional attachment specifically related to remote access; this is included as Attachment A of the User Responsibility Statement. In addition, Users who are granted approval to use a personally-owned device for County business must also sign Attachment B of the User Responsibility Statement.
- By signing the Statement or its attachments, Users acknowledge that they have read and understand the contents and that violation of any of the provisions may result in disciplinary action, up to and including termination of employment and/or criminal prosecution.
- If an individual refuses to sign the Statement, the Department can choose to read the Statement to the individual, who will be required to verbally acknowledge understanding of the Statement's contents in the presence of two or more responsible managers. These managers will attest in writing that this reading and verbal attestation of understanding occurred. Failing this verbal acknowledgement of understanding, the involved individual will be denied access to all County information systems and networks.
- Each County organization is responsible for storing and maintaining the signed Statements of its own Users.
- All County organizations shall have their Users re-execute the Statement and/or attachments annually, or whenever there is an update or other change to the Statement or attachments (Department Heads will be notified by the County CIO's office of any updates or changes to the Statement or attachments).
- Each County organization should identify a "User Responsibility Statement Administrator." This is an occasional personnel function that should NOT be filled by a member of the organization's information system support staff. Because it is a

personnel function, a good choice would be an employee in an administrative position who is responsible for other routine personnel issues.

The User Responsibility Statement Administrator is responsible for the following tasks:

1. Identifying employees and other Users within the organization that will need to read and sign the Statement, as well as the relevant attachments.
2. Managing the signing process, including arranging for any briefings to be held in conjunction with Users signing the Statement and attachments.
3. Maintaining the signed Statements and attachments.
4. Ensuring that new employees and other new Users read and sign the basic Statement and any relevant attachments, and that the Department signing process is performed by all Users on an annual basis.

SANTA CLARA COUNTY IT USER RESPONSIBILITY STATEMENT

This User Responsibility Statement establishes a uniform, County-wide set of minimum responsibilities associated with being granted access to Santa Clara County information systems and/or County networks. A violation of this Statement may lead to disciplinary action, up to and including termination.

Definitions

County information systems and networks include, but are not limited to, all County-owned, rented, or leased servers, mainframe computers, desktop computers, laptop computers, handheld devices (including smart phones, wireless PDAs and Pocket PCs), equipment, networks, application systems, data bases and software. These items are typically under the direct control and management of County information system support staff. Also included are information systems and networks under the control and management of a service provider for use by the County, as well as any personally-owned device that a User has express written permission to use for County business purposes.

County-owned information/data is any information or data that is transported across a County network, or that resides in a County-owned information system, or on a network or system under the control and management of a service provider for use by the County. This information/data is the exclusive property of the County of Santa Clara, unless constitutional provision, State or Federal statute, case law, or contract provide otherwise. County-owned information/data does not include a User's personal, non-County business information, communications, data, files and/or software transmitted by or stored on a personally-owned device if that information/data is not transported across a County network or does not reside in a County-owned information system or on a network or system under the control and management of a service provider for use by the County.

A mobile device is any computing device that fits one of the following categories: laptops; Personal Digital Assistants (PDAs); handheld notebook computers and tablets, including but not limited to those running Microsoft Windows CE, PocketPC, Windows Mobile, or Mobile Linux operating systems; and "smart phones" that include email and/or data storage functionality, such as BlackBerry, Treo, Symbian-based devices, and iPhones. Note that the category "Mobile Device" does not include devices that are used exclusively for the purpose of making telephone calls.

A public record is any writing, including electronic documents, relating to the conduct of the people's business as defined by Government Code section 6252.

"Remote access" is defined as any access to County Information Technology (IT) resources (networks or systems) that occurs from a non-County infrastructure, no matter what technology is used for this access. This includes, but is not limited to, access to County IT resources from personal computers located in User's homes.

Users includes County employees who are on the permanent County payroll, as well as any other individual who has been authorized to access County networks and systems.

Key Points

1. General Code of Responsibility

The following General Code of Responsibility defines the basic standards for User interaction with County information systems and networks. All Users of County information systems and networks are required to comply with these minimum standards.

- 1.1 Users are personally responsible for knowing and understanding the appropriate standards for User conduct, and are personally responsible for any actions they take that do not comply with County policies and standards. If a User is unclear as to the appropriate standards, it is that User's responsibility to ask for guidance from appropriate information systems support staff or Department management.
- 1.2 Users must comply with basic County standards for password definition, use, and management.
- 1.3 With the exception of County-owned and approved devices issued to specific authorized County users, only authorized information systems support staff may attach any form of computer equipment to a County network or system unless express written permission to do so is given by Department management. This includes, but is not limited to, attachment of such devices as laptops, PDAs, peripherals (e.g., external hard drives, printers), and USB storage media.
- 1.4 The use of personally-owned USB storage media on any County computer system is prohibited. All such devices must be County-owned, formally issued to the User by the Department, and used only for legitimate County business purposes.
- 1.5 Connecting County owned computing equipment, including USB storage media, to non-County systems or networks is prohibited unless express written permission has been given by Department management. This formal approval process ensures that the non-County system or network in question has been evaluated for compliance with County security standards. An example of a

You are responsible for your own behavior.

If you're unclear about a security standard, it's your responsibility to ask for guidance.

You must comply with County password standards.

Don't attach computer equipment of any kind to County systems or networks without permission.

Use only County-owned and issued USB storage media.

Don't attach County equipment of any kind to non-County computers or networks.

Key Points

permitted connection to a non-County system or network would be approved connection of a County issued laptop to a home network.

- 1.6 No User, including information systems staff, may install, configure, or use any device intended to provide connectivity to a non-County network or system (such as the Internet), on any County system or network, without express written permission. All such connections must be approved in writing by the County Chief Information Officer (CIO) or designee. If authorized to install, configure or use such a device, the User must comply with all applicable County standards designed to ensure the privacy and protection of data, and the safety and security of County systems.
- 1.7 The unauthorized implementation or configuration of encryption, special passwords, biometric technologies, or any other methods to prevent access to County resources by those individuals who would otherwise be legitimately authorized to do so is prohibited.
- 1.8 Users must not attempt to elevate or enhance their assigned level of User privileges unless express written permission to do so has been granted by Department management. Users who have been granted enhanced privileges due to their specific jobs, such as system or network administrators, must not abuse these privileges and must use such privileges only in the performance of appropriate, legitimate job functions.
- 1.9 Users must use County-approved authentication mechanisms when accessing County networks and systems, and must not deactivate, disable, disrupt, or bypass (or *attempt* to deactivate, disable, disrupt, or bypass) any security measure or security configuration implemented by the County.
- 1.10 Users must not circumvent, or attempt to circumvent, legal guidelines on software use and licensing. If a User is unclear as to whether a software program may be legitimately copied or

Don't install or activate communication devices, such as modems, on County computers or networks.

Don't use encryption except when directed to do so.

Don't attempt to enhance your assigned user privileges.

Don't attempt to disable or bypass County login procedures.

Follow the terms of all software licensing agreements.

Key Points

installed, it is the responsibility of the User to check with Department management or information systems support staff.

- 1.11 All software on County systems must be installed by authorized systems support staff. Users may not download or install software on any County system unless express written permission has been obtained from Department management or authorized system support staff.
- 1.12 Loss or theft of County-owned computer equipment, or of personally-owned computer equipment that has been approved for use in conducting County business, is to be reported immediately to designated Department management, administrative, or systems support staff. Users are also expected to be aware of security issues, and are encouraged to report incidents involving breaches of security, such as the installation of an unauthorized device, or a suspected software virus.
- 1.13 Users must respect the sensitivity, privacy and confidentiality aspects of all County-owned information. In particular:
- Users must not access, or attempt to access, County systems or information unless specifically authorized to do so, *and* there is a legitimate business need for such access.
 - Users must not allow unauthorized individuals to use their assigned computer accounts; this includes the sharing of account passwords.
 - Users must not knowingly disclose County information to anyone who does not have a legitimate need for that information.
 - Users must take every precaution to ensure that all information classified as either Confidential or Restricted (or an equivalent classification) is protected from disclosure to unauthorized individuals.

Don't download or install software without permission.

Immediately report the loss or theft of computer equipment, and also report any suspected security incidents.

Don't access computers or data unless such access is related to your job.

Don't share your user accounts or passwords with anyone.

Don't share information with someone not entitled to have it.

Protect sensitive data from those not authorized to see it.

Key Points

- Users must not make or store paper or electronic copies of information unless it is a necessary part of that User's job.
- 1.14 Users must respect the importance of County-owned systems and data as a valuable asset, and should understand that any data stored or processed on any County computer, or transmitted over any County network, is County property. In particular:
- Users must not change or delete data or information unless performing such changes or deletions is a legitimate part of the User's job function.
 - Users must avoid actions that might introduce malicious software, such as viruses or worms, onto any County system or network.
 - A User who leaves employment with the County must not retain, give away, or remove any County data or document from County premises, other than information provided to the public or copies of correspondence directly related to the terms and conditions of employment. All other County information in the possession of the departing User must be returned to the User's immediate supervisor at the time of departure.
- 1.15 Users should be aware that electronic information transported across any County network, or residing in any County information system, is potentially subject to access by County technical support staff, other County Users, and the general public. Users should not presume any level of privacy for data transmitted over a County network or stored on a County information system.
- 1.16 Users must respect all intellectual property rights, including but not limited to rights associated with patents, copyrights, trademarks, trade secrets, proprietary information, and confidential
- Don't make copies of information unless this is required by your job.**
- Don't change or delete data unless doing so is part of your job.**
- Don't introduce computer viruses onto County computers.**
- When leaving County employment, don't take County data with you.**
- You should have no expectation of privacy for electronic data stored on County computers.**
- Respect all intellectual property rights associated with data that you deal with while doing your job.**

Key Points

information belonging to the County or any other third party.

1.17 All information resources on any County information system or network are the property of the County and are therefore subject to County policies regarding acceptable use. No User may use any County-owned network, computer system, or any other County-owned device or data for the following purposes:

- Personal profit, including commercial solicitation or conducting or pursuing their own business interests or those of another organization
- Unlawful or illegal activities, including downloading licensed material without authorization, or downloading copyrighted material from the Internet without the publisher's permission
- To access, create, transmit, print, download or solicit material that is, or may be construed to be, harassing or demeaning toward any individual or group for any reason, including but not limited to on the basis of sex, age, race, color, national origin, creed, disability, political beliefs, organizational affiliation, or sexual orientation, unless doing so is legally permissible and necessary in the course of conducting County business
- To access, create, transmit, print, download or solicit sexually-oriented messages or images, or other potentially offensive materials such as, but not limited to, violence, unless doing so is legally permissible and necessary in the course of conducting County business
- Knowingly propagating or downloading viruses or other malicious software
- Disseminating hoaxes, chain letters, or advertisements

Don't use County computers to conduct your personal business.

Don't use County computers for illegal activities.

Don't create or send demeaning or harassing material.

Don't view, download, or send pornography or other potentially offensive materials.

Don't download or transmit malicious software.

Don't send chain letters.

Key Points

- 1.18 Users that are employed by, or are otherwise associated with, a HIPAA impacted Department, are responsible for understanding and carrying out their responsibilities and duties as identified in the County HIPAA policies and procedures training, and other HIPAA-related materials that may be distributed from time to time.

Handle all protected health information according to HIPAA regulations.

2. Internet and Email

The following items define the basic standards for use of County Internet and email resources. All Users of County information systems and networks are required to comply with these minimum standards.

- 2.1 In general, Users must not use County systems or networks for personal activities. However, reasonable incidental (*de minimus*) personal use of County resources, such as Internet access and email, is allowed as long as such use does not violate the County's acceptable use policies, and does not interfere with the performance of work duties or the operation of the County's information systems. If a User is unclear as to what is considered appropriate incidental personal use, it is the responsibility of the User to ask for guidance from Department management.
- 2.2 When conducting County business, Users may not configure, access, use, or participate in any Internet-based communication or data exchange service unless express written permission has been given by Department management. Such services include, but are not limited to, Internet Instant Messaging (such as AOL Instant Messaging), Internet email services (such as hotmail and gmail), peer-to-peer networking services (such as Kazaa), and social networking services (such as blogs, MySpace, Facebook and Twitter).

Limit personal use of County computers.

Don't use Internet email or data exchange services (such as FaceBook, MySpace, or other social networking sites) to conduct County business.

Key Points

- 2.3 It is the User's responsibility to become familiar with the specific County policies, procedures, and guidelines associated with the use of Internet-based communication and data exchange services. Users who have been granted permission to use an Internet-based communication or data exchange service for conducting County business are expected to adhere to all relevant County policies, procedures, and guidelines associated with the use of these services.
- 2.4 Users are responsible for understanding and following the County's policy with respect to the retention of email messages, including immediately deleting non-business related email messages once these messages have been read.
- 2.5 Users may not use an internal County email account assigned to another individual to either send or receive email messages.
- 2.6 Users may not configure their County email account so that it automatically forwards messages to an external Internet email system unless express written permission has been given by the Department Head. When automated forwarding is used, it must be for legitimate business purposes only, and is to be implemented with the User's full understanding of, and willingness to accept responsibility for, the associated risks for disclosure of sensitive information.

You are responsible for understanding County guidelines for using Internet data exchange services, such as social networking sites.

Follow County standards for retaining and deleting email messages.

Don't use anyone else's email account.

Don't automatically forward County email to an Internet email system.

3. Remote Access

The following items define the basic standards for remote access to County information systems and networks. All Users of County information systems and networks are required to comply with these minimum standards. Users actually granted remote access privileges must sign the statement provided as Attachment A.

Key Points

- 3.1 All remote access to County resources must be via the secure, centralized, County-controlled mechanisms and technologies approved by the County CIO or designee, and installed by authorized County systems support staff. Users are not permitted to implement, configure, or use any remote access mechanism other than the County-owned and managed remote access systems that have been formally approved and implemented by authorized system support staff.
- 3.2 Written approval for use of County remote access mechanisms is to be granted to a specific User by the appropriate Department Head or designee. Remote access to County resources will be implemented on a case-by-case basis based on job-related necessity, and only for those Users that have read and signed both the County's general User Responsibility Statement and the Remote Access agreement (Attachment A).
- 3.3 Remote access sessions may be monitored and/or recorded, and complete information on the session logged and archived. Users have no right, or expectation, of privacy when remotely accessing County networks, systems, or data. Audit tools may be used to create detailed records of all remote access attempts and remote access sessions, including User identifier, date, and time of each access attempt.
- 3.4 All computer devices used to access County resources from a remote location must be configured according to County-approved security standards. These include approved, installed, active, and current: anti-virus software, software or hardware-based firewall, full hard drive encryption, and any other security software or security-related system configurations that are required and approved by the County.
- 3.5 Users that have been provided with a County-owned device intended for remote access use, such as a laptop or other Mobile Device, will

Use only existing, approved County remote access systems.

Get approval for all remote access to County systems.

Remember that remote access sessions may be monitored and/or recorded.

Computers used for remote access must be configured according to County standards.

Key Points

take all reasonable measures to ensure that the device is protected from damage, access by third parties, loss, or theft. Loss or theft of such devices must be reported immediately to designated Department management or support staff.

- 3.6 Users will practice due diligence in protecting the integrity of County networks, systems, and data while remotely accessing County resources, and will immediately report any suspected security incident or concern to their Department management and IT support staff.
- 3.7 Remote access sessions are subject to all other relevant County IT security policies and standards, including Local User Authentication (passwords), Data Classification, Internet Use, and Email.

Take measures to prevent the loss or theft of County-owned Mobile Devices used for remote access, and report loss or theft of such devices immediately.

Take appropriate measures to protect County computers and data when using remote access.

When using remote access, continue to follow all County security policies.

4. Personally-Owned Devices

The following items define the basic standards for the use of personally-owned devices to conduct County business. All Users of County information systems and networks are required to comply with these minimum standards. Users actually granted the privilege of using a personally-owned device to conduct County business must also sign the statement provided as Attachment B.

Note that in the case of Mobile Devices, the following provisions apply only to those devices that include email and/or data storage capability (such as BlackBerry devices and other “smart” phones), and do not apply to devices that are used strictly for the purpose of making telephone calls.

- 4.1 Use of personally-owned devices to conduct County business is prohibited unless express written permission is obtained from both the Department Head and IT Manager. If the User in question is a Department or Agency Head, express written permission must also be

Use of a personally-owned device to conduct County business requires approval.

Key Points

- obtained from the County Chief Information Officer or designee. The use of personally-owned devices to conduct County business is a privilege, not a right, and employment at the County does not automatically guarantee the granting of this privilege.
- 4.2 The personally-owned device in question must use existing, County-approved and County-owned access/authentication systems when accessing County resources. Installation by Users of any hardware, software, or network interface components that provide unauthorized network connectivity, either wired or wireless, is prohibited.
- 4.3 The User shall allow the County to configure personally-owned devices as appropriate to meet security requirements, including the installation of specific security software that is mandated by County policy. When reasonably possible and practical, the County shall strive to provide a minimum of 24-hours notice to the User before configuring the personally-owned device. While the device is in the County's possession, the County shall not access, alter, retrieve or delete the User's personal information, communications, data, software or files stored on the device unless (a) it is reasonably necessary to do so to configure the device to meet security requirements, or (b) the User agrees to the specific access, alteration, retrieval or deletion.
- 4.4 Users authorized to use a personally-owned device must follow designated Department procedures for ensuring that software updates and patches are applied to the device according to a regular, periodic schedule. All software installations and updates are subject to verification by management-designated Department staff.

If you are allowed to use your own computer or mobile device for County business, you must still use County-approved user login procedures.

You must allow authorized IT staff to configure, and periodically update, security software on any personally-owned device used to conduct County business.

Follow Department procedures for updating and patching software on personally-owned devices.

Key Points

- 4.5 Users have no expectation of privacy with respect to any County-owned communications, information, or files on any personally-owned device. Users agree that, upon request, the County may immediately access any and all work-related or County-owned communications, information or files stored on these devices, in order to ensure compliance with County policies. Except as otherwise provided in this policy or as required by law, the County shall not access any of the User's personal information, communications, data or files on the User's personally-owned devices.
- 4.6 Upon reasonable suspicion that a User has failed to comply with County policy, the County may search and access communications, information, data, or files on the personally-owned device that are reasonably related to the County's suspicion and interest in conducting the search. Any such search and access will take place with a goal of returning the device within 48 hours, if reasonably possible. The search and access shall be conducted in the presence of the User and/or the User's representative when requested by the User. At the request of the Department and with reasonable notice (not to exceed 48 hours), the User must provide a copy of all work-related or County-owned communications, information, or files stored on the personally-owned device. If the personally-owned device contains any information which is subject to lawful privilege (such as attorney-client or work product), that device shall be searched by Department representatives who are entitled to view the information, so that the privilege is not violated.
- 4.7 If a user is contacted on a personally-owned device by someone from the County conducting County business, and the User has not obtained

The County has the right to access County data on any personally-owned device used to conduct County business.

The County may search a personally-owned device if there is a suspicion that County policy has been violated.

Key Points

- permission to conduct County business with that personally-owned device, then the County may not access that device regarding that User-received communication other than through legally permissible methods such as a subpoena, request for voluntary disclosure, etc. The preceding sentence shall not limit the County's right to direct a User to disclose the communication at issue upon reasonable notice.
- 4.8 The User shall adhere to all relevant County security policies and standards, just as if the personally-owned device were County property. This includes, but is not limited to, policies regarding password construction and management, physical security of the device, device configuration, and hard drive sanitization prior to disposal. This does not restrict the User's personal use of the device so long as that personal use does not include or result in (a) the User's failure to adhere to all relevant County security policies and standards, or (b) the breach of the County's security policies or standards.
- 4.9 The User will make no modifications of any kind to operating system configurations implemented by the County on the device for security purposes, or to any hardware or software installed on the device by the County, without the express written permission of the County CIO's Office.
- 4.10 The User must treat the device and the work-related or County-owned communications, information or files it contains as County property. The User must not allow access to or use of any work-related or County-owned communications, information, or files by individuals who have not been authorized by the County to access or use that data.
- 4.11 The User must immediately report to designated Department management or

The County will not require you to allow access to your personally-owned device for unsolicited, incoming County communications if that device has not been approved for use in conducting County business.

Even when using your own computer or other device for County business, you must still follow all County security policies.

Under most circumstances, you can continue to use an approved device for personal use as well as County business.

Don't modify any security configuration settings or security software on your computer.

Treat any personally-owned device used for County business as if it were County-owned.

Key Points

support staff any incident or suspected incident of unauthorized access and/or disclosure of County resources, data, or networks that involve the device, including loss or theft of the device.

Immediately report the loss or theft of a personally-owned device that has been used for County business.

Key Points

Acknowledgement of Receipt

This Acknowledgement hereby incorporates the main body of the User Responsibility Statement. Attachments A and B are additional signature pages that apply only to those individuals that have been granted either remote access privileges (Attachment A) or permission to use a personally-owned device (Attachment B). These Attachments should only be signed if either of these conditions apply.

The User should understand that the County's failure to enforce any provision of this Statement does not mean that the County will not enforce that or any other provision in the future. The User should also understand that if a clause, sentence or paragraph of this Statement is determined to be, invalid by a Court or County commission, this does not affect the validity of any other portion of the Statement.

By signing below, I acknowledge that I have read and understand all sections of the County of Santa Clara's User Responsibility Statement. I also acknowledge that violation of any of its provisions may result in disciplinary action, up to and including termination of employment and/or criminal prosecution.

If at any time, I have questions or doubts, or I feel ambivalent or unclear on any matter related to IT security and/or data confidentiality, I understand that it is my responsibility to request clarification from my supervisor or other appropriate manager before taking any action.

All Users must sign this Acknowledgement; Users with permission to use Remote Access should also sign Attachment A, and Users with permission to use personally-owned devices must complete and sign Attachment B.

Violation of any of the provisions in this User Responsibility Statement may result in disciplinary action.

It is your responsibility to ask for clarification if you don't understand any aspect of the County IT security policy.

I acknowledge that this Statement will still be in effect following a transfer to another County Agency or Department, and that all of its provisions will continue to apply to me as long as I am a County employee.

User Signature:

Print User Name:

Agency/Department:

Date Signed:

This page left intentionally blank.

Attachment A – Remote Access Signature Page

I have read and understand the contents of the User Responsibility Statement regarding Remote Access. I understand that violation of these provisions may result in disciplinary action, up to and including termination of employment and/or criminal prosecution.

I received approval from my Department's management to be granted Remote Access privileges for legitimate County business, as evidenced by the signatures below.

User Signature:

Date:

Printed User Name:

Agency/Department:

Agency/Department Manager Signature:

Date:

Printed Manager Name:

Manager Title:

This page left intentionally blank.

Attachment B – Personally-Owned Device Signature Page

I have read and understand the contents of the User Responsibility Statement regarding the use of Personally-Owned Devices. I understand that violation of these provisions may result in disciplinary action, up to and including termination of employment and/or criminal prosecution.

I own the following device(s), which I will use for legitimate business reasons in compliance with County policies:

Manufacturer	Model Number	Serial Number	Operating System

I received approval from my Department’s IT Manager and my Agency/ Department head to use the device(s) listed above for legitimate County business, as evidenced by the signatures below.

Agency/Department:

User Signature:

Date:

Printed User Name:

IT Manager Signature:

Date:

Printed IT Manager Name:

Agency/Department Head (or Designee) Signature:

Date:

Printed Agency/Department Head (or Designee) Name:

County CIO Office Approval Signature:

(Required only if User is Agency or Dept. Head)

Date:

Printed CIO Office Approver Name:

COUNTY OF SANTA CLARA
PERSONALLY-OWNED MOBILE DEVICE USAGE AGREEMENT

1. RECITALS

- a. This Personally-Owned Mobile Device Usage Agreement (“Agreement”) is entered into between the County of Santa Clara, a political subdivision of the State of California acting by and through its Information Services Department (“County”) and _____, an individual County employee, or independent contractor (“Employee”).
- b. The Effective Date of this Agreement shall be the date that the last party executes this Agreement.
- c. The purpose of this Agreement is to define standards, procedures, and restrictions for using mobile devices that are personally owned by the Employee (“Devices”) to connect to the County’s internal network(s), computer systems, and/or technology resources via any means. The overriding goal of this Agreement is to protect County’s technology-based resources (such as data, computer systems, and networks) from unauthorized use and/or malicious attack that could result in loss or disclosure of information, damage to critical applications, loss of revenue, and damage to County’s public image.

2. SCOPE

- a. This Agreement shall take effect upon the Effective Date of this Agreement.
- b. This Agreement will continue for a period of one (1) year from the Effective Date of this Agreement, unless terminated otherwise.
- c. This Agreement applies to, but is not limited to, all Devices that fit the following categories:
 - i. Laptops
 - ii. Personal Digital Assistants (PDAs)
 - iii. Handheld notebook computers and tablets running Microsoft Windows CE, PocketPC, Windows Mobile, or Mobile Linux operating systems
 - iv. Smartphones that include email and/or data storage functionality, such as BlackBerry, Treo, Symbian-based Devices, and iPhones
- d. This Agreement applies to Devices belonging to any County Employee, including full- and part-time staff, contractors, freelancers, and other agents who intend to utilize the Device in the conduct of County business.
- e. Employee acknowledges that use of such Devices to conduct County business is a privilege, not a right. Consequently, employment at County does not automatically guarantee the granting of these privileges.
- f. All hardware, software, and/or related network or interface components that provide Device network connectivity within County facilities, whether wired or wireless, will be implemented, controlled, and managed at the sole discretion of County.
- g. Non-sanctioned installations of hardware, software, and/or related network or interface components that provide Device network connectivity, whether wired or

- wireless, or use of same within any County facility, are strictly forbidden.
- h. County will not reimburse Employee for any costs related to Devices used pursuant to this Agreement, including but not limited to purchase costs, activation fees, monthly service fees, usage fees, interest, penalties, and any other fees associated with use of Employee's Device.
 - i. County shall not be responsible for any damage or repair to Employee's Device.
 - j. County, at its sole discretion, may take possession of Employee's Device for a reasonable period of time in order to insure compliance with all County policies related to secure configuration. Specifically, Employee agrees to allow County to configure Device as appropriate to meet security requirements, and to install any software required by County policy, including but not limited to anti-virus, VPN client, and hard drive encryption software.
 - k. Employee agrees to follow the designated procedure for ensuring that updates and software patches are applied to the Device according to a regular, periodic schedule.
 - l. Employee has no expectation of privacy with respect to any Device covered by this Agreement. County, at its sole discretion, may access any and all of Employee's Devices, and the data and files stored on these Devices, in order to insure compliance with this Agreement and all relevant County policies.
 - m. Termination of Employee's relationship with County will immediately terminate this Agreement.
 - n. County, at its sole discretion, may immediately terminate this Agreement by providing written notice to Employee.

3. ELIGIBLE USERS

- a. Employees requiring the use of a Device for County business purposes shall identify the Device and the business reason for the requested service.
- b. Employee requiring the use of such a Device shall obtain signed approval for such use from the Employee's IT Manager and Department Head.
- c. ISD must approve the specific Device to be used, as well as the anticipated connection type(s). County, through ISD, may withhold approval at its sole discretion for any reason whatsoever.
- d. County cannot and will not implement or technically support non-approved third-party wireless hardware or software, or any unapproved remote email connectivity solution, in order to support a non-standard Device.

4. POLICY AND APPROPRIATE USE

- a. It is the responsibility of Employee connecting to a County network via a Device to ensure that all components of the connection remain as secure as the equivalent network access within the office.
- b. Although County is not able to manage the public networks to which wireless-enabled Device will initially connect when outside the County environment (such as the Internet), Employee is expected to adhere to all County security policies and standards while utilizing the designated Device. Failure to do so will result in immediate termination of this Agreement and termination of all network access privileges so as to protect the County's infrastructure.

- d. Employee agrees to follow all County IT security policies, including those related to password construction and management, physical security of the Device, Device configuration and security, and appropriate disposal procedures (such as hard drive sanitization).
- e. Passwords and other confidential data as defined by County policy are not to be stored on Device.
- f. Employee will make no modifications of any kind to operating system configurations implemented by County on the Device for security purposes, or to any hardware or software installed on the Device by County, without the express written approval of the County CIO's Office.
- g. Employee will treat Device and the data it contains as County property and will not allow use of the Device by unauthorized individuals.
- h. Employee agrees to immediately report to Department/Agency management and ISD any incident or suspected incident of unauthorized access and/or disclosure of County resources, databases, or networks that involve the Device. This includes loss or theft of the Device.
- i. County reserves the right to turn off without notice any means of Device access to County resources that puts the County's systems, data, users, and/or clients at risk.

5. NON-COMPLIANCE

- a. Failure to comply with this Agreement may, at the sole discretion of County, result in the immediate termination of this Agreement, termination of any or all remote access privileges, disciplinary action, and possibly termination of employment.

6. MISCELLANEOUS

- a. Employee shall not assign or transfer this Agreement, or all or any part of its rights hereunder, by operation of law or otherwise, without the prior written consent of County. Any unauthorized assignment or transfer shall be null and void and shall constitute grounds for immediate termination of this Agreement by County. This Agreement shall inure to the benefit of and be binding upon any permitted successor or assign.
- b. No delay or failure to require performance of any provision of the Agreement shall constitute a waiver of that provision as to that or any other instance. Any waiver granted by a party must be in writing and shall apply to the specific instance expressly stated.
- c. If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, the remaining provisions shall remain in full force and effect
- d. The terms and conditions of this Agreement shall survive termination of this Agreement for any reason.
- e. The parties to this Agreement hereby agree to submit to the exclusive jurisdiction of and venue in the courts of competent jurisdiction, federal or state, in the County of Santa Clara in any disputes related to or arising out of this Agreement.

- f. Employee shall indemnify, defend, and hold harmless the County, its officers, agents and employees from any claim, liability, loss, injury or damage arising out of, or in connection with, usage of Employee's Device pursuant to this Agreement by Employee, excepting only loss, injury or damage caused by the sole negligence or willful misconduct of personnel employed by the County. It is the intent of the parties to this Agreement to provide the broadest possible coverage for the County. Employee shall reimburse the County for all costs, attorneys' fees, expenses and liabilities incurred with respect to any litigation in which the Employee is obligated to indemnify, defend and hold harmless the County under this Agreement.
- g. Unless where preempted by Federal laws, this Agreement shall be enforced and interpreted under the laws of the State of California and the County of Santa Clara, without any regards to the conflict of law principles.

7. EMPLOYEE DECLARATION

a. I, _____, declare under penalty of perjury under the laws of the State of California that the following is true and correct:

- i. I have read and understand the above Agreement regarding Personally-Owned Mobile Device Usage and consent to adhere to the terms and conditions outlined therein.
- ii. I own the following mobile device(s), which I will use for legitimate business reasons in compliance with this Agreement:

Manufacturer	Model Number	Serial Number

- iii. My reasons for using the designated personally-owned mobile device(s) pursuant to this Agreement include:

- iv. I received approval from my Department’s IT Manager and my Agency/Department head to use my PDA pursuant to this Agreement, as evidenced by the signatures below.

Employee Signature:
 Printed Employee Name:

Date:

IT Manager Signature:
 Printed Manager Name:

Date:

Agency/Department Head Signature:
 Printed Agency/Department Head Name:

Date:

ISD Approval Signature:
 Printed ISD Approver Name:

Date:

County of Santa Clara

Finance Agency
 Controller-Treasurer Department
 County Government Center, East Wing
 West Hedding Street
 San Jose, California 95110-1705
 (408) 299-2541 FAX 289-8629



December 14, 2000

TO: Department Fiscal Officers

FROM:

SUBJECT: Personal Use of County-Owned Cellular Telephones and Business Use of Employee-Owned Cellular Telephones

The purpose of this memo is to revise procedures associated with the personal use of County-owned cellular telephones. This subject was last covered in a February 11, 1997 memo to fiscal officers from Bill Parsons. This procedure revision is required because of new pricing structures associated with cellular telephone service contracts between the County and service providers. The procedures that follow also make a minor revision to the procedures associated with reimbursements for business use of personal cellular telephones. The revision allows processing reimbursements through petty cash if the amount is \$50 or less (currently the limit is \$25 or less).

PAYMENT OF CELLULAR TELEPHONE BILLS

1. Bills for County-Owned Equipment
 - A. Each employee with an assigned cellular telephone shall personally review each monthly billing to identify all personal usage that resulted in additional charges to the County. Additional charges occur when personal usage includes long distance calls or when total usage exceeds the "free minutes" allowance associated with the phone service provided. The employee shall initial the invoice to signify that all personal calls that resulted in additional charges to the County have been identified. Employees should be encouraged to keep a log of personal usage to facilitate their review of the monthly billings.
 - B. Unless alternative procedures have been approved by this office, departments may not submit invoices to the Controller-Treasurer for payment until the above described review has taken place and the employee has reimbursed the County for all personal usage that caused additional charges on the bill. The reimbursement shall be for the actual

additional charges associated with the calls, including taxes attributable to those charges. Evidence of payment by the employee must accompany the invoice submitted to the Controller-Treasurer.

- C. Employee payments for the personal use of County-owned cellular telephones shall be deposited to the County treasury as an offset to the expenditure subobject charged when the bill is paid.

2. Reimbursement for Business Use of Personal Cellular Telephones

- A. Employees shall be reimbursed for business use of personal cellular telephone equipment when the following conditions are met:

- The department head has specifically authorized that employee to use a personal cellular telephone for County business.
- A copy of the bill is provided to the department by the employee
- Each call on the bill considered "business" is highlighted in some manner to support the total amount claimed.

- B. When the above conditions are met, the reimbursement amount is limited to the actual cost of air time and long distance charges associated with business use plus applicable taxes and a proportional share of the monthly access charges. The proportional share of monthly access charges is to be computed by dividing total business minutes by total minutes of usage.

- C. Reimbursement requests that total \$50 or less can be processed through departmental revolving (petty cash) funds if a copy of the employee's bill is retained as supporting documentation. Reimbursements can also be requested by submitting a properly approved payment voucher, together with a copy of the employee's bill, to the Controller-Treasurer Department.

- D. Reimbursements should be charged to the same expenditure subobject that would be charged if the payment was to a cellular telephone company.

**Administrative Policies and Procedures**

HHS #221.40

March 16, 2010

TO: SCVHHS Executive Management Group**FROM:****Central Services****Policies****and****Procedures****SUBJECT: Personal Use of SCVHHS-Owned Cellular Telephones and Business Use of Employee Owned Cellular Telephones****POLICY:**

SCVHHS assigned cellular telephones are for county business and personnel use should be limited. Business use of personal cellular telephones will be reimbursed if conditions listed below are met.

Payment of Cellular Telephone Bills

1. Bills for SCVHHS-Owned Equipment.

- A. The SCVHHS assigned cellular telephones are for County business and personal use should be limited. Employees will reimburse SCVHHS for personal use of assigned telephones.
- B. Employees who used the County assigned cellular telephones for personal purpose shall comply with the following process:
 - Employee shall personally review each monthly billing to identify all personal calls that resulted in additional usage to SCVHHS. Additional usage occurs when total usage exceeds the minutes allowed with the phone service provider.
 - The employee must reimburse SCVHHS the per minute charge according to the service plan. In addition, employees should pay any long distance charges and applicable taxes associated with the personal calls.
 - If the per-minute charge is undetermined due to sharing of the unused minutes or other reasons, the-per minute rate should be calculated by dividing the monthly service charge by the number of free minutes.
 - Employees are encouraged to keep a log of personal usage to facilitate their review of the monthly bills.
 - Reimbursement can be made in cash or personal check to the SCVMC Cashier.

- C. Unless alternative procedures have been approved by SCVHHS administration, departments may not process invoices for payment when an employee has personal calls until the above described review has taken place and the employee has reimbursed SCVHHS for all personal calls that cause additional usage charges on the bill. Evidence of payment by the employee must accompany the invoice processed.
 - D. Employee payments for the personal use of SCVHHS-owned cellular telephones shall be deposited in to the SCVHHS Facilities Communications Account to offset charges when the bill is paid.
2. Reimbursement for Business Use of Personal Cellular Telephones
- A. Employees shall be reimbursed for business use of personal cellular telephone equipment when the following conditions are met:
 - The department head has specifically authorized the employee the use of a personal cellular telephone for County business.
 - The bill is provided to the department by the employee.
 - Each call on the bill considered "County business" is identified to support the amount of the claim.
 - B. When the above conditions are met, the reimbursement amount is limited to the actual cost of airtime and long distance charges associated with business use plus applicable taxes. If the cost of airtime is not itemized on the bill because the business call(s) were made within the "free minutes" allowance associated with the phone service, then the per minute rate should be calculated by dividing the monthly service by the number of free minutes.
 - C. Reimbursement requests that total \$50 or less can be processed through departmental revolving or petty cash funds (if the department procedures allow) with the original bill retained as supporting documentation. Reimbursements can also be processed through the SAP accounts payable process with Direct Pay code E2. The department must retain the original invoice on file, except for the remittance advice when it is necessary for the employee to include it as part of the payment to the cellular telephone company. Employee may retain a copy of the telephone bill.
 - D. Reimbursement will not be made to the employee's cellular phone company.

PROCEDURE:

Responsible Party	Action
Facilities Department	Distributes telephone summary with budget reports to all Cost Center Managers monthly.
Cost Center Manager	Monitors cellular telephone bills for personal use and accuracy.

Requests reimbursement from staff when a SCVHHS-owned cellular telephone is used for personal business.

If reimbursement to SCVHHS is necessary, employee may write a personal check (payable to Valley Medical Center) or pay by cash at the Cashiers office.

Cashier

Credit payments to appropriate fund.

Issued: 05/22/1992

Revised: 03/16/2010

SCVHHS Mobile Device Order Form

Date

Requestor (Employee Responsible for Device)

First Name	Last Name	Extension

HHS Email Address (firstname.lastname@hhs.sccgov.org)

Mobile Device Order

New	Replacement*	Options	Service Provider
<input type="checkbox"/>	<input type="checkbox"/> Lost or Stolen <input type="checkbox"/> Damaged <input type="checkbox"/> Upgrade	<input type="checkbox"/> Voice Only <input type="checkbox"/> Voice & Data <input type="checkbox"/> Transfer Number*	Select... Account Number

Department	Cost Center

HHS County Standard Devices

Stock Item	*Other Phone Model
Select...	

Cost Center Manager Information

First Name	Last Name	Extension

HHS Email Address (firstname.lastname@hhs.sccgov.org)

Cost Center Manager Approval

By checking this box, typing my full name and emailing this form to HHS-IS-Servicedesk@hhs.sccgov.org I am approving this order for the mobile device and understand the cost of the device and all charges incurred on a monthly basis will be charged to the Department and Cost Center listed above which I am the designated approved signer.

Cost Center Manager Approval (type full name)	Date

For IS Use Only

Remedy Ticket Number

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REVISED – 04/12/2011

April 12, 2011

To: Ken Yeager
Chairperson, Finance and Government Operations Committee

Dave Cortese
Vice Chairperson, Finance and Government Operations Committee

From: Sylvia M. Gallegos
Deputy County Executive

Subject: SCVHHS' RESPONSE TO THE HARVEY M. ROSE ACCOUNTANCY
FIRM'S AUDIT OF SCVHHS ADMINISTRATION AND SUPPORT
SERVICES - REVISED

The Santa Clara Valley Health and Hospital System management has reviewed the Harvey M. Rose Accountancy Firm's Audit Letter pertaining to SCVHHS Administration and Support Services. Our responses to the narrative and recommendations are set forth in this memorandum.

Section 1 – Health and Hospital System Corporate Charges

RECOMMENDATIONS AND SCVHHS RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 1.1 Annually at the end of each fiscal year adjust corporate charges to SCVHHS budget units based on actual expenditures. (*Priority 1*)

Agree. SCVHHS Finance staff adjust corporate charges based on actual expenditures, annually; however, adjustments have been done post-third-party-audit as part of annual cost report claiming process and not as part of the monthly General Ledger closing.

- 1.2 Include County-wide overhead costs in cost pool of administrative and support service costs that are annually allocated as the SCVHHS corporate charge. *(Priority 1)*

Disagree. The General Fund Health Departments already receive an allocation of County-wide overhead costs. The remaining portion of overhead that would have to be allocated is only what pertains to the "corporate" cost centers, and not all of that overhead would be allocated. For example, SAP is used by all SCVHHS departments' budget units but is budgeted in the hospital budget; SCVMC's use of it would not change. It would take a detailed, time-intensive analysis to determine the exact amount of the SAP overhead charge that should be allocated to the General Fund departments at a time when SCVHHS Finance has numerous staff vacancies; and this additional analysis would not provide a benefit. In FY2010, corporate cost centers totaled less than 10% of the total expense budget in the hospital's budget, which would mean that some portion of less than 10% of the County overhead would need to be allocated (or less than 10% of the \$4.5 million referenced by the auditors). It would require more time and staff resources to more precisely allocate less than \$450,000 in County-wide overhead costs for no apparent value associated with undertaking this additional work.

In addition, Barbara Arons Pavilion, Emergency Psychiatric Services, and Valley Health Plan's costs associated with its management services organization function for SCVMC make up part of the \$450,000, and these costs appropriately reside in SCVMC's budget.

- 1.3 Perform a comprehensive review and analysis of the SCVHHS corporate charge and prepare a written policy and procedure pertaining to the annual preparation, justification and documentation of the SCVHHS corporate charge. *(Priority 2)*

Agree. The SCVHHS corporate allocation methodology was designed when SCVHHS was an agency. The allocation was established using CMS's required allocation principles and costs were minimized for the agency by consolidating overhead costs. Actual costs were trued up to actual expenditures for the cost reports and grant claiming after audit. All grant and cost report claiming are done by Finance staff, which ensures costs have been reconciled and were compliant across the agency.

- 1.4 Develop and implement detailed cost accounting records to support its information services and other central service costs where the level of effort to do so is reasonable in relation to the costs of the services provided. *(Priority 2)*

Disagree. Where central service (i.e., overhead) costs involve the use of shared systems, general allocation methodologies make the most sense in terms of equity and ease. One methodology, for example, that is commonly employed throughout government agencies is to allocate overhead or central costs based on the number

of FTEs in a budget unit. There is no benefit to be gained by adding an additional administrative burden to SCVHHS Finance to spend scarce staff resources undertaking an analysis to implement more precise cost accounting records. There is no benefit for IS, Finance staff, etc. to more specifically allocate their time to SCVMC versus SCVHHS General Fund department projects. Finance believes it is a better use of staff time to devote limited staff resources on those activities that maximize receipt of revenue, reduce liability, and avoid unnecessary expenses.

Section 2 – Hospital Charges and Reimbursements

Response to Narrative in Section 2

SCVHHS Administration appreciates that the management auditors did address some of our concerns discussed during the exit interview. There are a few comments that should be made regarding the tone of this section.

The County's required contribution to the Medicaid program (approximately 50% of the cost for inpatient services) is reflected within the "loss." There is no way SCVMC can increase charges to fully recover these costs, as asserted by the management auditors. This fact needs to be underscored because the only way to reduce this loss would be to stop serving Medicaid patients. We do not believe the auditors are suggesting SCVMC stop serving Medi-Cal patients; however, our "losses" on Medi-Cal patients is the way we make the required contribution to the Federal Medicaid Program. Given the current number of Medicaid patients being served by SCVMC, the County's portion of the required match is over \$80 million.

SCVMC is a safety net hospital with the preponderance (69% +) of its payer mix comprised of government-sponsored patients. Government funding for serving these patients bears little relationship to our charges. Our charges are set to accomplish specific objectives. Increasing our charges, for example, would negatively affect the cost of services that under-insured patients would have to pay for services or increase the cost of co-pays for commercially insured patients.

With respect to recommendation 2.3, the Planning and Business Development staff has already developed a semi-annual report on contracting activity that has been in place. The first "Report on Contracting Activity for Santa Clara Valley Medical Center and Valley Health Plan" was submitted to the Board of Supervisors' Health and Hospital Committee on January 27, 2000. At that time, with discussion among HHC members, the County Executive, and SCVHHS, it was decided that the report would be produced on a semi-annual basis with two attachments showing a summary of the contracts completed for each type of delegated agreement and comprehensive lists of the contracts by category. In 2001, a routine schedule of April and September reporting was established that has continued to present. In addition, Planning and Business Development began to refine the original format to include an annual consolidated financial summary of

SCVMC managed care contract and insurance payer performance in the April report. This financial summary shows the performance of insurance contracts and other insured payers for the prior fiscal year at a point when collections are complete except for the most difficult cases.

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 2.1 Verify that policies and procedures to set SCVMC's charges are based on proper cost accounting methodologies. Charges should fully recover costs unless specifically set at lower levels by the Board of Supervisors after considering the amount of operating loss that will result from such rates. This should be done in consultation with members of the Controller-Treasurer's Cost Management Unit. *(Priority 1)*

Partially agree. SCVMC has over 55,000 charge items and has methodologies in place to ensure that reimbursement is maximized, while considering SCVMC's role as a safety net provider. Hospital reimbursement for government payers has little to do with charges. In fact, for inpatient Medi-Cal, the County is required to provide the match for Federal funding (50% of cost); thus, reimbursement is 50% of cost. Medicare pays on fee schedules or PPS (prospective payment system) rates that are affected only by a charge in that in some cases they will pay lower of charge or fee schedule, and the patient's co-insurance amount is based on charge. Increasing charges will not net additional reimbursement; however more of the bill will be paid by the patient.

SCVMC has strategically set its charges to be attractive to patients and commercial payers, while maximizing governmental funding. Based on fully loaded Medicare and Medi-Cal cost reports, inpatient costs are approximately 39% of charges and outpatient costs are approximately 49% of charges, while they may vary by specific service. In FY2010, total charges were \$2.5 billion compared to operating expenses of \$1.055 billion. Obviously, charges cover costs.

SCVMC will document the methodologies showing how charges are set and will document annually any changes to that methodology. SCVMC would like to conduct an annual comparison of costs and charges to ensure that costs are covered, and compare charges to published reimbursement rates; however, SCVMC does not have a cost accounting system at present. We have a proposal under the Waiver's DSRIP's Cost Containment program to implement a Cost Accounting System that would apply reasonable, consistent, and accepted costing of services. Once a cost accounting system is in place, SCVMC would be able to

do the charge setting review suggested by the management auditors. Until that time, such a comparison is not possible.

SCVMC would be happy to review charging practices with the County Controller's Office.

- 2.2 Ensure that work papers document SCVMC's annual rate setting process and calculations, including summaries of actual costs, proposed charges and comparisons of charges to other local hospitals. This information should be submitted to the Controller-Treasurer for evaluation and Board of Supervisors for its review and approval annually, prior to the effective date of such charges. (Priority 1)

Partially agree. SCVMC has work papers that set forth how rates are set. To summarize actual costs for the services provided to patients would require a cost accounting system that SCVMC does not currently have in place. As referenced above in 2.1, our FY2010 Budget Plan contains many DSRIP proposals, one of which is the acquisition and implementation of a cost accounting system.

SCVMC has 55,000 charge items. It would be possible to compare a sample of charges to local hospitals; however, documenting the setting of rates based on local hospitals could be considered "rate setting" or collusion.

Inpatient room charges are submitted annually for approval by the Board of Supervisors. The charges are increased based on prior year cost reports (cost per day compared to the year before) and estimated cost increases going forward. Commercial insurance volume is predominantly comprised of inpatient visits. Adding review by the Controller's Office and Board of Supervisors could be completed, though it would add a large workload and more steps to an already cumbersome process. Perhaps there is a more streamlined approach possible.

- 2.3 Develop a comprehensive report on contracting activity and aggregate health plan costs, charges and reimbursements and annually provide this information to the Board of Supervisors. (Priority 1)

Partially agree. SCVMC already provides semi-annual reports, as described above, and will continue to do so.

Specific profitability, even if aggregated, would put SCVMC at a competitive disadvantage when negotiating/contracting with commercial payers. We would recommend that the sum of all commercial contracts reports presented to the Board currently or in the future be conveyed via confidential memorandum to retain the County's negotiating advantage. Divulging confidential information could result in driving up the County's General Fund Contribution to SCVMC, which is not the management auditors' or SCVMC's goal.

The Controller-Treasurer Department should:

- 2.4 Include SCVMC patient fees in the annual review of fees and charges and independently verify the methodologies used to calculate SCVMC proposed fees and charges for the ensuing fiscal year. (*Priority 1*)

Disagree. SCVHHS disagrees with this recommendation because it would add to the administrative burden for SCVHHS Finance and the Controller's Office when both offices staffing resources are limited. SCVHHS would propose, instead, to work with the Controller's Office to establish a mutually acceptable methodology to fees and charges, which should meet the management auditors' goals.

Section 3 – Outside Medical Services

Response to Narrative in Section 3

SCVMC appreciates the corrections that the management auditors included in the final version of the report. There are a few others that should be raised as well as additional context to provide an accurate representation for FGOC and Board of Supervisors' consideration.

The management auditors indicate that Outside Medical Services costs have increased, and their recommendations primarily revolve around the utilization of physicians.

First, it is important to underscore that there are numerous reasons to account for the increased utilization of outside medical services over time. The report indicates that costs have risen from \$16.4 million in FY2006-07 to \$39.4 million in FY2009-10, which reflects a 140.5% increase in costs. We have stated that the increase is partly attributable, for example, to inflation (estimated 28%) and the growth in the number of commercially insured patients in VHP who can choose to receive services outside of SCVMC.

Secondly, utilization of outside services has been a conscious decision at times. VHP's IHSS population (7,300 lives), for example, has a significant percentage of immigrants who prefer physicians of their own ethnicity. There is, perhaps surprisingly, a significant number of Russians in the population, and there are six SCCIPA doctors who speak their native language. There is also a significant percentage of Vietnamese, and they prefer to see the Vietnamese community providers.

Thirdly, we are acutely aware of the institutional challenges that affect patient access and clinic productivity, and we have already been working on initiatives to address them:

- We continue to work on reducing the patient no-show rate, which varies by clinic, as set forth below under item 2.1. It is also important to recognize that for safety net institutions, a 20% no-show rate is within industry norms. Our no-show rates on Table 3.3 indicate that of the five specialty clinics selected, only one – Ophthalmology (22.4%) – was above the 20% norm. That said, within reason, we do strive to make lowering the no-show rate an institutional priority.

- We also spent considerable time and effort to re-open physician panels to new patients by cleaning-up the panels, developing methods to add/delete patients from panels, producing monthly reports for the physicians, and so forth. The panels have been open since last summer and remain open.
- SCVMC Administration has already obtained agreements with the physician clinic chiefs to increase clinic physician productivity to achieve FY2012 budgeted volume and improve access in the clinics. When the electronic medical record (ELMR) was implemented, the number of visits per half day was reduced to allow the physicians to transition to its use and undertake the labor-intensive effort of manually entering hard copy patient records into electronic forms. It was discovered that the utilization of ELMR changed a physician's practice on an ongoing basis by, for example, increasing documentation time. The roll-out of ELMR to the specialty clinics was halted last year to allow time to improve ELMR's functionalities and interfaces.

Concerning the regional clinics, actual-patient-visits-to-budgeted-capacity varied by clinic as depicted in Table 3.4, but it does not describe some of the underlying reasons for the discrepancies among clinics. VHC Milpitas, for example, was activated in August 2010 in the midst of the review period (July – Sept. 2010), and the ramp up of the clinic to being fully operational has been slower than originally forecasted. VHC Sunnyvale required a ramp up period as well when three internists relocated from the now closed VHC Silver Creek facility in that same time frame.

With respect to physician staffing levels, the management auditors identified the costs associated with these additional resources, but not the revenue generated through the provision of care by these additional providers, which thereby presents an incomplete financial picture associated with the staffing levels. There are several reasons why additional Extra Help P41 physicians are utilized to supplement the budgeted levels of physicians.

SCVMC has never adequately budgeted physician staffing to account for the need to backfill for leaves. The most common reason a physician is on leave is for maternity leave. In OB-GYN and Pediatrics, for example, we regularly experience 5 – 8 maternity leaves annually, and when the providers do return, they may come back working only partial hours. SCVMC has not budgeted positions to backfill for leaves due to our constrained budgetary environment that does not generally support adding coded positions.

The budgeted physician staffing level also does not reflect the time physicians devote to other institutional obligations. Physicians employed at SCVMC may have multiple administrative responsibilities that do not involve direct patient care, and affect availability for providing care. SCVMC has never budgeted physician staffing to account for physicians time away from their clinical obligations. These responsibilities include partial leadership positions to provide administrative and quality oversight. In addition, hospital committees require physicians' participation as mandated by regulatory agencies, such as, The Joint Commission (TJC) or the Centers for Medicare and Medicaid Services

(CMS) to develop and review important and mandated policies and procedures. It is also required that these policies and procedures be monitored and adhered to, such as, those for credentialing, quality of care, and medication review. In the community hospital setting, physicians are paid stipends to attend such committees and participate in these important clinical activities; our employed physicians are not paid stipends.

SCVMC is also a teaching institution and is highly sought out for the training experience from graduates from prestigious medical schools from across the country. Our institution trains one in four doctors in this community. Residency requirements mandate specifically designated Program Directors and Associate Program Directors with dedicated time for direction and supervision of the residency programs as well as others physicians educating the residents to maintain accreditation. The budgeted physician staffing level does not accurately reflect physicians' involvement in multiple administrative, quality, and policies areas.

Audit recommendation 3.2 proposes that the physician staffing level be reduced by 14.4 FTEs by deleting current P41 physician vacancies or soon-to-become-vacant positions. The use of attrition has significant drawbacks as attrition is unplanned and unrelated to the demand for specific services. This proposal would curtail critical health services – such as, Trauma Care, emergency Obstetrical care, and off-hours Pediatric and Adult Urgent Care – and prolong access wait times.

The current Extra Help physicians are being utilized to fill in during nights and on weekends for the Trauma Surgeons in the Level I Trauma Program, Labor and Delivery, Anesthesiology, Urgent Care, and other hospital areas. Specialized training is required in the majority of these areas.

To make the proposed reduction in physician staffing risks SCVMC's accreditation and ability to care for our community. The reduction would result in an increase in wait times, which can be substantial at present, given the high volume of patients seeking care in the Emergency Department. Implementing the reduction in physician staffing would force an increase in referrals to physicians outside of SCVMC to be compliant with health plan regulations, increasing outside medical services costs to SCVMC.

Furthermore, reducing physician staffing is antithetic to the direction of the new Waiver and Health Care Reform, which will result in thousands of patients obtaining health insurance and seeking care in our system. SCVMC and its network will have an increased demand of nearly 40,000, primarily adult managed care lives, in the coming two years. This increase in lives is just the beginning of the ramp up to the full implementation of Health Care Reform. We should be ramping up for the increased need for access and services by, as we are already doing, increasing physician productivity and other efforts to increase access, not decreasing physician levels.

SCVMC's medical staff are committed to increasing efficiencies and improving the throughput of patients. By improving the efficiencies, SCVMC will deliver on the number

of patient visits assumed in the FY2012 budget, and will maintain the safe and high quality of care the community requires.

RECOMMENDATIONS AND SCVHHS RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 3.1 Direct all clinic managers to review appointment procedures followed by the Central Appointment Scheduling Unit to ensure that the daily appointment schedule for each clinic fully utilizes the budgeted capacity for that clinic, including double-booking appointments as necessary to account for patients who do not show up for scheduled appointments. (*Priority 1*)

The current fiscal year was unusual with respect to the regional clinics budgeted capacity in so far as the ramp up of VHC Milpitas was significantly slower than anticipated. VHC Sunnyvale also had a ramp up period because three internists relocated from the former VHC Silver Creek facility.

For safety net institutions, the industry norm is a 20% no show rate, and from the five specialty clinics selected for analysis, all but one was below that rate. We have, nevertheless, already been in the process of instituting numerous additional actions to achieve budgeted visit capacity. To obtain meaningful improvement to the no show rate, it would likely require the implementation of technology to generate, for example, automated SMS text messages to supplement our current reminder calls.

- 1. Ambulatory Care administration reviewed the visits seen per half day requirement and the percentage no-show data with each clinic manager. Clinics are creating schedule templates that will have sufficient appointments to address no-shows and/or allow overbookings to achieve the projected/budget visit capacity. Overbookings present challenges as well because no shows vary by clinic, season, and other factors, and, if overbookings are not carefully managed, they can result in wait times that exceed patients' willingness to wait and increase the rate of patients abandoning their appointments after check-in.*
 - 2. Clinics have been working on improvement projects to reduce the no-show rate: contacting patients prior to appointment, an action that expands upon the automated telephone appointment reminder; follow-ups with patients after a no-show; educating patients at the next appointment so that they understand the effects of a no-show; increasing same or next day appointments.*
 - 3. A subgroup is working on actions to address chronic no-show patients, which may include discharging them from care for noncompliance.*
- 3.2 Immediately reduce actual P41 Physician staffing by approximately 14.4 FTEs to comply with the maximum budgeted authorization for P41 Physicians by deleting

permanent coded P41 Physician positions that are vacant or become vacant through attrition. (*Priority 1*)

Strongly disagree due to the critical impact such a reduction would have on essential health care delivered by the institution for emergent, urgent conditions in the evenings and weekends, such as, in the Level I Trauma Program and the Obstetrical program. Current vacant codes have identified physicians who have already accepted written offers to begin work in July. To delete their positions would have a deleterious impact on patient care in those areas. In addition, the FY2012 budget was constructed on the projected number of patient visits and days these physicians would treat; to reduce the positions would require reducing the patient volume and revenue assumptions.

- 3.3 Develop and implement procedures to adjust P41 Physician staffing throughout the fiscal year, and as precisely as possible coordinate actual staffing with actual workload (actual patient census and actual outpatient visits) by maintaining and utilizing extra help physician positions to flex staffing levels as necessary. (*Priority 1*)

Agree in concept. The usual visitation pattern is that the summer months are slower and with the arrival of flu season, utilization of health services increases significantly. It is difficult to reduce or increase extra help physician staffing seasonally because physicians typically do not desire seasonal work patterns and physician resources in the community are limited and projected to be increasingly scarce as the current generation of Baby Boomer physicians retire in the next five years.

- 3.4 Produce a monthly report to track outside medical costs and categorize the purpose for the use of each outside provider as well as the specific type of clinic or ancillary service that was used. This report should be distributed to SCVHHS Ambulatory Care Administration and to all clinic managers, including Chief Physicians to monitor the usage of outside medical services and to ensure that such services are only utilized when the County is at or above capacity in its clinics. (*Priority 1*)

Agree in concept. One of the significant institutional challenges is the lack of data systems or the absence of system interfaces that enable SCVMC to easily and quickly generate useful reports. This overarching challenge affects our ability to undertake business analyses in a wide variety of areas. When we do generate reports, it is typically a manually intensive endeavor. This challenge is compounded by the fact that SCVMC lacks decision support and other analytical staff resources to generate reports and conduct data analyses.

- 3.5 Establish clinic specific patient-visits-per-physician-hour goals consistent with the hours of operation and physician staffing in each clinic, and customize the quantitative hourly goal to reflect the unique aspects of each specific clinic and

the patients whom we serve. These clinic specific goals should also be used for purposes of budgeting clinic staffing levels. (*Priority 1*)

Partially agree. SCVMC has already developed goals for adult primary care physicians. The process to create achievable and reasonable goals has taken many months due to the aforementioned inadequacy of our data systems. The plan is to establish goals for the specialists and pediatrician as well. To obtain broad-based acceptance and adherence to goals, the physician leadership has endeavored to undertake goal-setting in a collaborative fashion. The goals would also have to be developed in a precisely clinic-specific manner. Dermatology and Oncology visits, for example, have obvious differences. Nor is the recommendation applicable to the Medical Home Model or the goals required for some of the performance milestones under the Waiver's Delivery System Reform Incentive Pool's Pay-For-Performance metrics.

- 3.6 Prepare and distribute a monthly report of patient-visits-per-physician-hour to Ambulatory Care Administration and all clinic managers, including clinic Chief Physicians. (*Priority 1*)

Agree. With the understanding that patient-visits-per-physician-hour productivity is not the sole measurement of a physician's total business activity. It reflects only a portion of a physician's time because they have multiple responsibilities in various areas of the institution. SCVMC's overall challenge of generating automated reports of useful data is applicable to this recommendation as well.

Section 4 – Supply Usage and Charge Capture

Response to Narrative in Section 4

The Operating Room Pick Ticket Method section, page 3 – 5, states: “The pick ticket is entered the day before or the same day of the surgery.”

A correction is in order. The “pick ticket” is already on file in the surgical database of Surgical Information Systems (SIS). When a procedure is scheduled, the corresponding pick ticket is selected by computer and validated by a scheduler. The “pick ticket” is the equipment and supply instruction list to the last detail of what is needed for each specific type of surgery or procedure. These pick tickets are updated regularly and are complete for each surgical service line and surgeon. When a procedure is scheduled, the pick ticket for that procedure is recalled from the database and used as the template to build a case supply cart containing all of the supplies and instruments for that procedure the night before. After the case is completed, all the supplies are immediately charged to the patient via a charge interface from SIS to Invision and ultimately to the patient's hospital bill. All the supplies listed on the pick ticket and any additional supplies added intraoperatively are charged by “exception;” that is, the patient is charged for all items on the pick ticket, unless the nurse indicates that the supply item was not used. This results

in the ability to easily, accurately, and electronically charge for all supplies used on a patient for his surgery. After the procedure is completed, the charges are validated by the charge entry office, and submitted via a charge interface *Rules Bases Charging* to Invision and the patient's hospital bill within 24 hours. Over the last ten years, using our computerized system, SIS, Operating Room charging errors have almost been completely eliminated, and we now have the one of the most accurate and fastest charging systems in the hospital.

In Table 4.1, the report indicates that of the 552 Lap Chole kits purchased, only 247 kits were charged to patients in the operating room. The data collected by the management auditors is incorrect. The purchase history and use was carefully reviewed. The number purchased and the number of items charged from the Operating Room are correct and match. For the Lap Chole Kits-Bladed, the number of items per case (6 kits/box) was incorrect, which resulted in an incorrect doubling of the calculated number of Lap Chole Kits-Bladed purchased. The actual number is 3 kits per box. SCVMC bought 276 Kits, which arrived in 92 boxes of 3 Kits/box, not 6/box. SCVMC charged for 247, and have 30 remaining on the shelf in inventory. For the Lap Chole Kit-Bladeless, there were 324 purchased, and from SIS patient charge records, all 324 were charged.

In summary, the Operating Room's system of ordering and charging is very accurate. All ordered and purchased items were charged to patient accounts.

Regarding Venous oxymetry oxygen sensors, the report states, "Potential savings of \$70,000 could be realized if only recycled oxygen sensors were used." It is important to note that this is not recommended. SCVMC Sterile Processing evaluated and trialed recycled oxygen probes five years ago. A switch to fully recycled probes would have cost \$750,000 to acquire the monitors required to run the probes. The existing contract provides the monitors at no charge with the purchase of Novation-priced oxygen probes. If this contract were cancelled, it would require purchasing 150 monitors at a minimum of \$5,000 each. Furthermore, recycled probes have a failure rate of 10 - 25%. SCVMC settled on a balance of new probes that meet the contract needs in order to have the monitors provided at no expense, and also a small portion of recycled to meet the unmet balance of our patient care needs.

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 4.1 Quantify the costs and benefits of replacing the "peel-and-stick" or "bingo card" system with an automated bar-coding or Pyxis system. (*Priority 1*)

Agree. Automated charging is among the long list of system needs that SCVMC has desired to improve efficiency and accurate charge capture. SCVMC's ability to secure such an automated charge capture system is limited by the lack of available resources due to an environment of regular budget reductions over the past ten years.

- 4.2 If the “peel-and-stick” or “bingo card” charge capture system is retained, ensure that all supply charges are entered daily by requiring medical staff to put dates on every card, requiring Central Supply staff to pick up all cards from all departments, and increasing the number of staff trained and qualified to complete charge entry duties. (Priority 1)

Agree.

- 4.3 Produce monthly reports on supply usage and charge capture at the cost center level, and distribute these reports to every cost center manager, as well as Resource Management managers. (Priority 2)

Agree. This information resides in PMM and should be distributed to every cost center manager, as well as the Finance department.

- 4.4 Analyze consumption of supplies that cost less than \$10, and use this information for setting room rates. (Priority 1)

Agree. This is actually done. The cost of supplies that are not specifically charged to patients are expensed to the units and included in the cost report calculation of cost per day which is analyzed in determining the charges for room rates.

- 4.5 Require representatives from medical units, administration and Resource Management to meet regularly as part of the Green Team. (Priority 3)

Agree.

- 4.6 Establish enhanced policies, procedures and/or systems to control supply storage and distribution and ensure a continuous chain of custody for all mail. (Priority 2)

Agree.

- 4.7 Until a durable medical equipment (DME) license is obtained, enter into an agreement with a DME vendor to install a DME vending machine at the hospital, or refer discharged patients to licensed DME retailers, some of which are located near the hospital. (Priority 2)

Partially Agree. SCVMC has encouraged clinicians to give patients with Medi-Cal and other coverage programs prescriptions for DME to be filled by local DME retailers. Many retailers would require payment up front prior to billing Medi-Cal or insurance, which has been a barrier to care for many of our patients. SCVMC would need to find a provider that would accept Medi-Cal upfront as many of these DME items are necessary to prevent readmissions and/or increased health problems.

SCVMC will only be able to obtain a Medicare DME provider number for the pharmacy, which was deactivated because of our inability to obtain a surety bond in the required time frame.

- 4.8 Prepare “take home” packs that bundle low cost items, so that they can be charged to patients. (Priority 2)

Disagree. The reason that items were rolled into the room charge or facility charge was due to CMS requirements that routine supplies cannot be charged separately. In addition, a prior analysis concluded that it would cost more in staff time than the value of payment for the low-cost items. Unless a supply is specifically ordered and documented in the medical record, it cannot be charged. Merely bundling low-cost items does not make them chargeable.

Section 5 – Supply Policies, Contracts and Systems

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 5.1 Update and enhance policies and procedures for authorizing the purchase of supplies. (Priority 2)

Partially agree. A more robust system for reviewing the original approval of products and restricting physician preference items would be beneficial. Policies are always in need of updating, but authorization of purchases through PMM already occurs.

- 5.2 Require participation of representatives from Finance, Patient Business Services, Resource Management, and all inpatient and outpatient clinical units in value analysis committees. (Priority 2)

Partially agree. Finance and PBS involvement would be beneficial; clinic staff would provide good input and should be included. However, the committee size should not become as large as to be unwieldy.

- 5.3 Implement a six-month post-implementation review of new product introductions analyzing costs, savings, and benefits. (Priority 2)

Agree in concept. Without system tools for tracking and analysis, it is difficult to undertake this recommendation. For a simple product change, it is easy to track use, but may not reveal any soft costs or increased procedural costs.

- 5.4 Establish policies and procedures regarding the role of vendors in operating rooms. These policies and procedures should ensure patient safety and minimize conflicts of interest between vendors and medical staff. (Priority 2)

Agree.

- 5.5 Centralize all supply purchasing, management, and control, including supplies for outpatient clinics, in the Resource Management Department. (Priority 2)

Partially agree. All non-facility and non-pharmacy purchasing and practices should be centralized from a management perspective, though not necessarily in one location physically. Inventory should not be centralized in one location; there is no physical space or staff to manage supplies in that fashion.

- 5.6 Install and implement a contract management system that identifies discrepancies between prices on supply invoices and contract prices to achieve cost savings. (Priority 2)

Agree. It is already in place, it is called GHX.

- 5.7 Continue working with the County Procurement Department to address contracting issues, including standardizing contract documentation and posting contracts in a way that permits easy access and the ability to retrieve information down to the item level. (Priority 2)

Agree.

- 5.8 Consider installing a single integrated master system, such as, Oracle or SAP, to support the many modules currently being managed by multiple systems in Resource Management, or streamlining existing systems to better integrate functions across systems. (Priority 2)

Disagree. No such single health system exists. Even SAP concurs that its system is not an enterprise system, though SAP has a way to manage the integration.

Section 6 – Information Technology Governance

Response to Narrative in Section 6

The SCVHHS Information Services (IS) Department disagrees with the assertion that IT Governance issues may cause the County to lose significant funding under “Meaningful Use.” IS has undertaken significant efforts to put SCVMC on the path to meeting Meaningful Use, but the results should not be solely characterized as an IT Governance issue. The achievement of Meaningful Use of Electronic Health Records is an organizational compliance mandate requiring behavioral, technical, and reporting compliance. Given the number of operational touch-points, high-level SCVMC leadership and governance is required, which is beyond the immediate purview of an IT Governance Committee. The County Executive has taken responsibility for overseeing the Core Enterprise IT project.

It should also be noted that the depth and breadth of the total compliance effort for Meaningful Use of EHR and its incentive payments exceeds the functional scope and capabilities of the Information Systems Steering Committee (ISSC) or IT Governance committees. The IT aspect is one of many organizational aspects required for compliance. A project of this size and complexity requires executive leadership and the formation of a Meaningful Use Task Force to ensure compliance with critical milestones.

Functionally, the ISSC can only work toward ensuring the EHR is technically ready. SCVMC leadership must lead the organization-wide compliance effort, which involves training, performance, and reporting.

RECOMMENDATIONS AND RESPONSES

The County Executive should:

- 6.1 Expand oversight of the Information Technology Executive Committee to include prioritizing information technology projects funded within the Santa Clara Valley Medical Center Enterprise Fund along with all other projects, based on the substantial subsidy provided to the Enterprise Fund by the General Fund. *(Priority 1)*

SCVHHS IS defers to the County Executive for this response, but does offer a concern. It is unclear how ITEC could qualitatively assess and prioritize projects related to patient care initiatives, compliance mandates, operational improvements, revenue enhancements, etc., without exposing itself and SCVMC to considerable risk.

The Santa Clara Valley Health and Hospital System should:

- 6.2 Immediately establish the Agency-wide Information Systems Steering Committee (ISSC), pursuant to SCVHHS Policy #512.10, to review, plan and coordinate the development and ongoing support of SCVHHS information systems and networks. One of the top concerns of the ISSC should be ensuring that electronic health record technology (EHR) meets the criteria for meaningful use and registering for the EHR Incentive Programs. *(Priority 1)*

Agree. ISSC should ensure the EHR meets the “technical” criteria. Other performance compliance aspects must belong to SCVMC executive leadership and a Meaningful Use Task Force.

- 6.3 Require more detailed information on Project Request Forms to ensure that each and every SCVHHS IT project is properly costed with labor and equipment (including SCVHHS Information Systems Department staff costs to implement and maintain projects), ongoing costs are identified along with savings, and that the operational benefits and success of each project can be measured quantitatively. *(Priority 1)*

Agree.

6.4 Create a Project Management Office that reports to the Chief Information Officer and CEO, and has the following responsibilities:

- a. Developing written procedures on managing IT projects;
- b. Providing guidance to staff on estimating cost and benefits when filling out Project Request Forms; and
- c. Monitoring the progress of approved projects against budgeted costs and timelines, assisting project managers in keeping projects on track (such as mediating conflicts with end users) and reviewing the reasons that projects have Chief Information Officer and CEO, and has the following responsibilities:
- d. Monitoring, evaluating and reporting project benefits within six months of a project's conclusion. (*Priority 1*)

Partially agree. The establishment of a PMO was a Deloitte recommendation; the former Planning and Business Development Director was tasked with undertaking this endeavor, but due to his medical leave and subsequent departure, this endeavor has not commenced. Project management literature and best practices indicate that PMOs should report to the institution's CEO in order to be effective. However, given the technical nature of the projects, the PMO can report to the Chief Information Officer with a dotted reporting relationship to the CEO. Steering committees and project committees are often composed of project stakeholders with conflicting organizational interests. PMOs also require the highest organizational escalation point (CIO/CEO) to ensure there is compliance with organizational/strategic objectives.

Section 7 – Medical Coding Organization and Staffing

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 7.1 With the exception of Compliance, centralize SCVMC charge entry and medical coding under one manager, while charge entry and coding personnel and their supervisors continue to be physically located in different departments or units. (*Priority 1*)

Disagree. Facility coding done by Medical Records is very different from professional fee coding. There is no reason for the two components to report to the same manager. Additionally, charge entry does not require coding, whether centralized or decentralized; there is no reason for coding and charge entry to report to the same manager.

Currently, with the exception of Radiology, all staff doing professional fee coding all report to the Assistant Director of PBS, who is a certified coder. The staff who

are responsible for the CDM are also required to be certified professional fee coders as they are responsible for attributing CPT and HCPCS codes to charge codes in the CDM, and they all report to a Sr. MISA, who is also a certified coder. Compliance auditors are all certified coders and are supervised by Sr. Healthcare Financial Analysts who are certified coders.

All professional fee coders for Compliance, CDM, and Professional coding are Revenue Control Analysts. Finance management staff worked with ESA to adjust this classification to be appropriate for coders. Staff who supervise these coders are also certified coders; however, they have other duties and are in other senior roles. The exception to this statement is in Radiology. Newly hired coders have their work reviewed and are tested by compliance coders to verify that they are coding in a compliant manner. Compliance sponsors training to keep coders updated and able to maintain their credentials.

7.2 Work with the County Employee Services Agency to:

- a. Create a job specification for the coding manager that requires a professional coding certification and knowledge of coding rules and guidelines, facility fee charge capture and reimbursement methodologies, and healthcare compliance audit requirements; and

Partially agree. Management positions already exist in Medical Records for facility coding requirements. Coding certificates are required for staff supervising the professional fee coders, regardless of their actual job code. The supervisory staff has varied responsibilities. We do agree that there should be specific positions created for compliance auditors and supervisory staff.

- b. Standardize the job classifications and pay scales for the hospital's other charge entry and coding personnel. Higher pay should be associated with better skills, earned certifications and number of years employed to encourage high morale and retention, and mandated coding certification should be considered for new hires to minimize penalties and maximize revenues. (Priority 1)

Partially agree. Charge entry is data entry that can be done by various job codes. The revenue control analyst position is a broad range code that is appropriate for professional coder positions. The salary range should be reviewed to determine if it goes to a high enough level to attract and retain coding expertise.

- c. Immediately fill vacancies to increase the number of coders in SCVMC units, such as Medical Records, where there are backlogs of bills. (Priority 1)

Agree.

- 7.3 Immediately fix the software used for charge entry so that it may accommodate the number of digits necessary to properly code services or supplies that have extended suffixes. *(Priority 1)*

Agree.

- 7.4 Consider standardizing the hospital's coding system by moving to one automated system when its financial situation improves. *(Priority 3)*

Partially agree. The concept is worthy of consideration, but there is no such system on the market. It is imperative that doctors assign a diagnosis and CPT code. Even if SCVMC were to purchase the EPIC system (referenced only as illustration, not as an expression of intent), a separate system to enter facility code charges would be required.

- 7.5 Implement a comprehensive training program for medical and coding staff on compliance issues and the upcoming transition to a new code set. *(Priority 2)*

Agree.

- 7.6 Ensure that the chargemaster is current and complete by:

- a. Immediately update the chargemaster to capture the correct and current charges for all items. *(Priority 1)*

Agree. This is an ongoing process.

- b. Review and revise, if necessary, SCVHHS Policy #579.0 on Charge Description Master review and maintenance, which is more than three years old. *(Priority 2)*

Agree.

- c. Establish specific procedures for submitting change requests for new, deleted or revised items, procedures and services, and for exchanging information and coordinating charges in the chargemaster. *(Priority 2)*

Agree. There is a process in place for department/providers to update add items to their rate files for services that they provide. SCVMC will review and update the policy and procedure, and educate departments on the process.

Section 8 – Control of Hospital Fixed Assets

Response to Narrative in Section 8

Write Offs Over the Last Four Fiscal Years

SCVMC Controller's Office has been working to make its fixed asset list more accurate since Fiscal Year 2006; the \$27 million in write offs from 2007 – 2009, discussed by the

management auditors under “Adverse Affects” are a result of these efforts. The write offs are primarily due to appropriate paperwork not being completed or reaching the right destinations to complete the record keeping process (i.e., from the cost center to HHS Property Control to County Property Disposal to County Controller for removal from SAP). The annual inventory certification write off process has been used to clean up this deficiency for items that were disposed or traded, not just lost or unable to locate. In addition, in Fiscal Year 2006, SCVHHS Finance discovered that SCVHHS Property Control was involving County Property Disposal in disposing of assets, causing items to not be removed from the County system at that time and required subsequent write off of assets. SCVHHS Finance met with SCVHHS Property Control, County Property Disposal, Information Services, and Bio Med to restart the correct process and flow of paperwork. Since then, write offs through the annual certification process have slowly taken place as SCVHHS Finance worked through the older assets to determine their status. The 2007 write offs included assets purchased from 1987 to 1993. The 2008 write offs included assets purchased from 1980 to 2000. The 2009 write offs included assets purchased from 1990 to 2002.

SCVMC audited financial statements show the following retirements of major moveable equipment (retired/disposed, traded, lost, stolen, etc.). Information prior to 2001 is not available due to less stringent accounting and reporting requirements required by Generally Accepted Accounting Principles:

FY	Retirements	Equipment Balance
2001	-	62,252,000
2002	4,734,000	64,269,000
2003	4,409,000	74,695,000
2004	2,000	81,233,000
2005	-	83,939,000
2006	13,247,000	83,029,000
2007	5,650,000	84,479,000
2008	3,688,000	85,179,000
2009	12,762,000	84,228,000
2010	6,713,000	89,175,000
	<u>51,205,000</u>	

The chart reflects the catch up/clean-up effort conducted by the SCVMC Controller’s Office. Even with the clean-up efforts from Fiscal Year 2006 to present, retirements are still lower than expected. The average useful life of SCVMC equipment (based on American Hospital Association guidelines and the classification of our assets by American Appraisal) is 8.4 years. There is more clean-up work to do, as well as continue improving the current process.

The platelet incubator mentioned by the auditors was returned to the vendor and credit was received. During the 2010 fixed asset inventory, the SCVMC Controller’s Office asked the cost center’s staff to complete the appropriate paperwork, which they did in November 2010. The asset was still included in the write off list as part of our annual inventory and clean-up.

Why Items Can Not Be Located *Disposal*

The SCVMC Controller's Office requested copies of disposal forms processed by SCVHHS Property Control. These records indicate that significantly more assets were disposed during 2010 than shown by the management auditors. In one case, a disposal of five dialysis machines was initiated by SCVMC in February 2010 and signed by County Property Disposal in March 2010. The five dialysis machines are still in the SAP fixed asset data base. The SCVMC Controller's Office will follow up with County Property Disposal and County Controller/Treasurer to determine where and why the current process still is not working.

Since Fiscal Year 2006, the SCVMC Controller's Office has made several changes as part of its plan to improve the fixed asset tracking process. Some of those changes include meeting with SCVHHS Property Control, County Property Disposal, Information Services, and Bio Med to resurrect our process; piloting an independent verification team utilizing Finance staff; editing descriptions and adding serial numbers so that departments could find the assets easier; adding a working description area on the fixed asset requisition so that an identifiable name would be attached to the asset at the time of requisition; revising instructions to the departments; and revising fixed asset policies and procedures.

Technology Solutions

One of the projects that the SCVMC Controller's Office was assigned was the tagging and retagging of fixed assets, and the synchronization of asset numbers with the various systems. The implementation of the real time location system (RTLS) was part of the final stage of the clean up effort, and would have accomplished the tagging and synchronization work as well as provide for the independent tracking that is needed. Unfortunately, the RTLS is significantly behind schedule due to budget constraints and other competing priorities.

Deficiencies in Current Fixed Asset Policy *Custody and Inventory Duties are Not Segregated*

Regarding the \$1.3 million worth of equipment that had been certified as located in FY 2007, the SCVMC Controller's Office believes that this was a clerical error. The cost center's staff, and the SCVMC Controller's Office records indicate that the asset had been certified as traded in prior years. It remained on the list only due to the slowness of the SCVMC Controller's Office analysis and methodical clean-up of prior years.

In Fiscal Year 2006, the SCVMC Controller's Office piloted independent verification of fixed assets by utilizing two Finance staff. The plan was to eventually perform a rolling independent inventory of all areas. An area was selected and the independent team made several attempts to perform an inventory. The lead staff transferred out of the department shortly thereafter, and the pilot never resumed. Much was gleaned from this short pilot;

the learning curve is long and shallow for this kind of work. Also, staff from the targeted area is still needed, and the area will be disrupted during the inventory. The staff performing the inventory must be medical equipment experts and know how the area being inventoried operates. This is labor intensive solution will require additional staff. The recurring use of an outside contractor may be more efficient. The pilot experience did give us even more incentive to pursue electronic solutions.

The County Controller's Office confirmed that the SCVMC 2010 inventory certification was received on December 30, 2010. The SCVMC Controller's Office is not satisfied with the late submissions, but appreciates the County Controller/Treasurer's patience in prior years while the clean up effort has taken place. The SCVMC Controller's Office does ask for extensions and keeps the County Controller/Treasurer apprised of subsequent time lines for submission. Meeting deadlines in the future and ensuring accurate results will require additional resources.

RECOMMENDATIONS AND RESPONSES

The Controller-Treasurer Department should amend the County fixed asset policy to:

- 8.1 Within large departments and agencies, restrict who may carry out physical inventories to persons who are not responsible for the assets. *(Priority 1)*

Agree.
- 8.2 Specify under what circumstances missing assets may trigger review by either the Employee Services Agency or a referral to law enforcement or other appropriate entities. *(Priority 1)*

Agree.
- 8.3 Include provisions for enforcement of the inventory certification deadline to ensure that any missing items are identified and reported within the prescribed timeframe. *(Priority 2)*

Agree.
- 8.4 Provide for prompt reporting to the Board's Finance and Government Operations Committee when assets cannot be located. In these reports, responsible departments should specify whether they intend to replace these items and provide an approximate description and cost of the replacements, so that Board members may determine whether the expenditures on those replacements are warranted in light of each item's replacement history, the potential de-funding of other priorities in order to fund those replacements, and the likely operational effect, if any, of non-replacement or replacement with less expensive brands. *(Priority 1)*

Agree.

Section 9 – Compromise of Patient Debt

Response to Narrative in Section 9

SCVMC offers clarifications and corrections to the four (4) cases provided as examples for the compromise of patient debt.

Patient A's case did not involve a third-party claim. Patient A had written to SCVMC's Customer Service department regarding the care she received and to the Board of Supervisors regarding her concerns. A review of the case and billing was conducted, it was subsequently determined that \$2,279.87 should be written off, as the charges were not clearly documented.

Further research showed Patient A had not divulged all of her income while completing the financial screening, which led to her to being held responsible for total charges.

The committee agreed to compromise the bill if the patient would continue to make \$800 a month payments and sign a promissory note in case she defaulted in the pay plan. Since the promissory note was not signed, the total charges are due for this account with no compromise. The committee was trying to preserve litigation costs by the compromise.

Patient B's case did involve a Third Party. The attorney for Patient B requested all the charges that were related to the date of injury be waived. The Debt Review Committee denied this request due to the fact the County was allowed to recover \$8,102.14 based on statute. Since the charges were under the amount allowed, the committee denied the request and counter offered to accept the amount owed.

Settlement Amount: \$25,000.00

Attorney fees & costs: 8795.72

\$16,204.28 divided by 2 = \$8,102.14 (allowed)

This patient was a county resident and was covered by the County's Ability to Pay (APD) program for unrelated charges.

Patient C does not represent a Third Party Case. This patient was a visitor from the United Kingdom and had purchased a visitor medical insurance policy. The patient was admitted through the emergency room due to an illness. The insurance company denied the claims as a pre-existing condition. Since the patient had insurance, but was determined to be under-insured, she was financially screened for the Discount/Charity program, under AB774. This financial screening did not take place prior to the account being transferred to the Department of Revenue; therefore it was referred to the Debt Review Committee.

Patient D's case does involve a Third Party. The attorney in this case requested the County accept \$2,625.82 as payment in full for the \$6,752.32 in charges related to the date of injury. This amount was larger than the statutory amount the County was allotted and therefore was accepted.

Settlement Amount: \$5,000.00

Attorney fees & costs: 1681.67

\$3,318.33 divided by 2 = \$1,659.17 (allowed)

This patient was covered under the County's Valley Care Program for unrelated charges.

Patient E had a Third Party Case. This case was a request for reconsideration from a review the prior year. Patient E's attorney requested the County accept \$2,287.00 as payment in full for the \$6,847.30 charges incurred for this date of injury. The committee denied the request due to the fact the County was allowed to recover \$8,852.90 based on statute. Since the charges were under the amount allowed by statute, the committee counter offered to accept the amount owed, \$6,847. There was no financial screening done for this patient.

RECOMMENDATIONS AND RESPONSES

The Board of Supervisors should:

- 9.1 Amend the County Ordinance Code to clarify its intent with respect to which staff position (or designee) or staff committee is invested with the Board's compromise authority, and specify that level of authority, and consolidate all compromise processes under this single authority, thus eliminating multiple responsible parties, differing processes and varying levels of compromise authority. (*Priority 1*)

Agree.

- 9.2 Amend the Ordinance Code and any relevant resolutions to clarify what amounts, if any, should be compromised by the Board itself. (*Priority 1*)

Agree.

- 9.3 The Board designee or committee, pursuant to Recommendation 9.1, should:

Develop procedures to:

- a. Specify how claims will be compromised and what role affected departments will play in terms of researching, investigating and/or voting on compromise amounts;
- b. Improve consistency in terms of compromise of amounts not governed by statute;

- c. Provide for consistent and clear documentation of compromise decisions; and
- d. Ensure that compromise offers are presented consistently to debtors, preferably in writing on County Counsel letterhead. (*Priority 2*)

Agree.

- 9.4 If the Board designee or committee identified pursuant to Recommendation 9.1 elects to retain a staff committee process, the designee's procedures pursuant to Recommendation 9.3 should specify Counsel's role as advisory to the committee, rather than a voting committee member. (*Priority 3*)

Agree.

Section 10 – Budget Policies, Procedures and Organization

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 10.1 Revise its budget methodology to fully integrate cost center managers into the process, and adopt comprehensive written budget policies and procedures documenting the specific duties and responsibilities of budget office staff, cost center managers and other staff with budget responsibilities. The development and implementation of comprehensive written policies and procedures should also include desk manuals for the Budget Director and other key Budget Office positions. (*Priority 1*)

Agree. In many areas, cost center managers are developing budgets; to expand their involvement would be welcome.

- 10.2 Devise a system of budget accountability and performance incentives directly related to management and oversight of cost center budgets by cost center managers, and submit the proposed budget management system to the County Executive and Board of Supervisors for approval. (*Priority 1*)

Agree.

- 10.3 Develop a proposed staffing reallocation as described in this section and move funding for vacant funded positions from elsewhere in the organization to the Finance Division to strengthen its budget office and financial analysis and reporting capabilities. The specific proposal should be submitted as part of the FY 2011-12 Recommended Budget. (*Priority 2*)

Agree.

Section 11 – Cellular Phone Plans and Policies

Response to Narrative in Section 11

In this section, the management auditors state that more than \$40,000 could be saved annually by switching Information Services staff to less expensive calling and data plans, and cancelling some data plans. The Information Services (IS) Department of SCVHHS, which now oversees cellular phones and plans, has already accomplished this undertaking when it was assigned this new responsibility last year. SCVHHS IS disagrees with the management auditors' extrapolation of this effort to yield \$340,000 in agency-wide savings.

RECOMMENDATIONS AND RESPONSES

The Santa Clara Valley Health and Hospital System should:

- 11.1 Select cell phone plans for staff based on actual usage patterns for both calling and data plans. *(Priority 1)*

Agree.

- 11.2 Consider costing the method of reimbursing staff for the business use of their personal phones when their business-related cell phone needs are limited. *(Priority 2)*

Agree. The County Controller is working on this analysis.

- 11.3 Establish a system for monitoring cell phone usage that involves cost center managers. *(Priority 2)*

Agree. A process has been established and proven to be successful thus far. The IS Department has implemented an invoice review process to carefully monitor minutes utilization and collect payment remittances for non-County use overages.

- 11.4 Establish protocols to ensure that cell phones are recovered when staff leave County service to prevent costs related to unauthorized usage. *(Priority 3)*

Agree. The IS Department is already implementing procedures for recovering County-owned equipment. The procedures will be centered on a new form that is an Employee Record of Issued Inventory. The procedures will be discussed for eventual enterprise-wide adoption.

The Controller-Treasurer Department should:

- 11.5 Work with departments to correct inconsistencies in existing cell phone policies and strengthen these policies as follows:
- a. Draft specific criteria that qualify staff for a County-owned cell phone, including whether staff are frequently away from their office, and are required to be available by phone at all times, or have other needs for critical communication;
 - b. Provide criteria to justify add-on services, such as data plans, text messages, voicemail, directory assistance, call forwarding, address books and applications;
 - c. Require that employees be given written information on their cell phone plans and features, as well as copies of all policies that govern cell phone use; and
 - d. Require that reimbursements for personal calls on County-owned phones that exceed incidental or de minimis use be based on actual usage and provide worksheets or other methods to report such use for reimbursement purposes. (*Priority 2*)

SCVHHS defers to the Controller-Treasurer's Office for this response.

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County of Santa Clara



Finance Agency Controller-Treasurer Department

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March 30, 2011

To: Roger Mialocq
Board of Supervisors Management Audit Manager

From: Irene Lui, Controller-Treasurer 

Subject: SCVHHS Administration and Support Services Audit Report
Recommendations 2.4, 8.1 to 8.4, and 11.5

We appreciate the opportunity given to respond to the audit of the Santa Clara Valley Health and Hospital System (SCVHHS) Administration and Support Services completed by the Board of Supervisors' Management Audit Division.

Recommendations 2: Hospital Charges and Reimbursements

The Controller-Treasurer Department should:

2.4 Include SCVMC patient fees in the annual review of fees and charges and independently verify the methodologies used to calculate SCVMC proposed fees and charges for the ensuing fiscal year. (Priority 1)

Department Response on Recommendations 2.4

We agree with the recommendation and will work with SCVMC Finance to verify the methodologies used to calculate SCVMC proposed fees and charges during our annual review of fees and charges.

Recommendations 8: Control of Hospital Assets

The Controller-Treasurer Department should amend the County fixed asset policy to:

- 8.1 Within large departments and agencies, restrict who may carry out physical inventories to persons who are not responsible for the assets. (Priority 1)
- 8.2 Specify under what circumstances missing assets may trigger review by either the Employee Service Agency or a referral to law enforcement or other appropriate entities. (Priority 1)
- 8.3 Include provisions for enforcement of the inventory certification deadline to ensure that any missing items are identified and reported within the prescribed timeframe. (Priority 2)
- 8.4 Provide for prompt reporting to the Board's Finance and Government Operations Committee when assets cannot be located. In these reports, responsible departments should specify whether they intend to replace these items and provide an approximate description and cost of the replacements, so that Board members may determine whether the expenditures on those replacements are warranted in light of each item's replacement history, the potential de-funding of other priorities in order to fund those replacements, and the likely operational effect, if any, of a non-replacement or replacement with less expensive brands. (Priority 1)

Department Response on Recommendations 8.1 to 8.4

We believe that the County has strong policies to ensure accountability for its fixed assets. These policies are demonstrated by our 65 pages of Fixed Asset Policies and Procedures Manual, which require the recording of all fixed assets and annual physical inventories. With this said, we accept the recommendations made by the Board of Supervisors Management Audit Division and will revise our Manual to incorporate these recommendations.

Recommendation 11.5: Cell Phone Plans and Policies

The Controller-Treasurer Department should:

- 11.5 Work with departments to correct inconsistencies in existing cell phone policies and strengthen these policies as follows:
 - a. Draft specific criteria that qualify staff for a County-owned cell phone, including whether staff are frequently away from their office, and are required to be available by phone at all times, or have other needs for critical communication;

- b. Provide criteria to justify add-on services, such as data plans, text messages, voicemail, directory assistance, call forwarding, address books and applications;
- c. Require that employees be given written information on their cell phone plans and features, as well as copies of all policies that govern cell phone use; and
- d. Require that reimbursements for personal calls on County-owned phones that exceed incidental or de minimis use be based on a methodology approved by the Controller-Treasurer that fully reimburses the County. (Priority 2)

Department Response on Recommendation 11.5

We agree with the recommendations. In fact, the Cell Phone Policy Review Committee, with representatives from many county departments including Controller, HHS, SSA, ESA, DA, CC, and more, has been established two years ago aiming at the cell phone policy revisions that (1) will comply with the then very restrictive IRS cell phone regulations, and (2) improve the overall controls and monitoring that achieve both efficiency and effectiveness.

The Federal Bill HR 5297, signed by the President on September 27, 2010, has removed the cell phone (and similar telecommunications equipment) from listed property effective January 1, 2010. While it means that the heightened substantiation requirements and special depreciation limitations for listed property will no longer apply to cell phones, this change does not eliminate all substantiation requirements for employer-provided devices.

Together with the proposed recommendations stated above, the Committee members have discussed and agreed on the strengthened policy that will address the concerns raised above. The proposed policy will be issued to all county departments effective April 4, 2011.

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To: Finance and Government Operations Committee

From: Jeffrey V. Smith, County Executive

Subject: County Executive's Response to the Harvey M. Rose Accountancy Firm's Audit of SCVHHS Administration and Support Services

Recommendation 6.1: Expand the oversight of the Information Technology Executive Committee to include prioritizing information technology projects funded within the Santa Clara Valley Medical Center Enterprise Fund along with all other projects, based on the substantial subsidy provided to the Enterprise Fund by the General Fund. (Priority 1).

Response:
Agree.

For FY 2012, a set of recommended FY 2012 information technology projects has been developed by the recently established IT Rapid Transformation Teams that have been working on redefining the Business and Technology Alignment Governance models, along with the IT project evaluation criteria and scoring methodology, in conjunction with HHS IS staff.

The current funding recommendation is also based on the funds that have been itemized as part of the County Executive's budget, including some projects that include SCVMC. This set of FY 2012 recommendations do not include a cradle to grave review of the current set of Santa Clara Valley Medical Center IT projects, but in future years, the intent is to include those in the Countywide IT Three Year Plan and recommendations.

A Project Portfolio Management structure and approach is being developed with representatives identified from various Communities of Interest, such as Health and Hospital Systems. Although there will be a focus on each of these areas there will also be a higher-level review and understanding to comply with overall strategies and funding approaches. In order for the County to realize savings, reduce redundancy, share systems and resources, in an effective manner, strategies, plans and projects will need to be understood across the County, and managed and reported consistently.

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